REPORT OF THE GENERAL ACCOUNTING OFFICE ON THE NOTCH ISSUE

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

APRIL 14, 1988

Serial 100-69

Printed for the use of the Committee on Ways and Means

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REPORT OF THE GENERAL ACCOUNTING OFFICE ON THE "NOTCH" ISSUE

THURSDAY, APRIL 14, 1988

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, DC.

The subcommittee met, pursuant to call, at 10:04 a.m., in room 1100, Longworth House Office Building, Hon. Andy Jacobs, Jr. (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
THURSDAY, MARCH 24, 1988

SUBCOMMITTEE ON SOCIAL SECURITY #8
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

ANDY JACOBS, JR. (D., IND.), CHAIRMAN, SUBCOMMITTEE ON SOCIAL SECURITY, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON THE REPORT OF THE GENERAL ACCOUNTING OFFICE ON THE "NOTCH" ISSUE, ON THURSDAY, APRIL 14, 1988, AT 10:00 A.M., IN ROOM 1100 LONGWORTH HOUSE OFFICE BUILDING

Andy Jacobs, Jr. (D., Ind.), Chairman of the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will hold a hearing on the General Accounting Office report issued today entitled, "Social Security: The Notch Issue." The hearing will be held on Thursday, April 14, 1988, beginning at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building.

Oral testimony will be received from Members of Congress and invited witnesses only, including the General Accounting Office, the Social Security Administration, senior citizen organizations, and social security beneficiaries.

Witnesses representing various viewpoints will be heard. Any interested individual or organization may submit a written statement for inclusion in the printed record of the hearing.

BACKGROUND

The legislation adopted in 1972 to provide for automatic cost-of-living adjustments (COLAs) in social security benefits contained an error which resulted in benefits increasing at extremely rapid rates. New beneficiaries began receiving benefits which overcompensated for inflation and jeopardized the solvency of the Social Security Trust Fund. In 1977, Congress enacted legislation to remove this flaw in the social security benefit formula. The new law was effective for all beneficiaries born after 1916. In addition, a transition benefit was provided for those born from 1917-1921. The discussion surrounding this issue, which has come to be known as the "notch," has been filled both with misinformation and misunderstanding.

In an effort to clear up the confusion, the previous Chairman of the Social Security Subcommittee, the Honorable James R. Jones, requested the General Accounting Office to conduct a complete investigation into how the social security "notch" arose, which beneficiaries were affected by it, the socioeconomic characteristics of those affected, and the alternatives for financing any increase in benefit expenditures which would result from any remedial legislation.

MEMBERS OF CONGRESS REQUESTS TO BE HEARD:

Members of Congress interested in testifying should have their staffs contact Harriett Lawler (telephone 225-1721) by the close of business Thursday, April 7, 1988, or the request may be made by formal written request addressed to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building. Any questions regarding a scheduled appearance should be directed to the Subcommittee staff (225-9263).

(OVER)

Members of Congress are requested to restrict their oral statements to no more than five minutes. THE FIVE MINUTE RULE WILL BE STRICTLY APPLIED. The full written statement will be included in the printed record.

Members testifying before the Subcommittee are requested to submit 100 copies of their prepared statements to the Subcommittee on Social Security office, room B-316 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearances.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons submitting written comments for the printed record of the hearing should submit six (6) copies by the close of business, Thursday, April 28, 1988, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearing wish to have their statements distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room B-316 Rayburn House Office Building, during the course of the public hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing may be submitted in other forms.

Chairman **Jacobs**. Will our guests find seats in fairly rapid order so that we can begin?

Let the record show that the hearing today before the Social Security Subcommittee is on the controversy commonly known as the notch.

The first statement will be made by the Honorable William Archer, cochairman of this subcommittee.

Mr. **Archer**. Mr. Chairman, thank you. I appreciate your calling this hearing today so that we can shed light on a problem that has concerned many people in our country.

I am particularly pleased that our colleague and former chairman, Jake Pickle, will be with us this morning. I hope he does show up.

Voices. We can't hear you.

Chairman **Jacobs**. I think one way you could probably hear him is if you would shut up. We would appreciate a little bit of order because——

Mr. **Archer**. Mr. Chairman, I don't know what's the matter with my mike here, but I have no control over the decibels that are turned out by this microphone.

Chairman **Jacobs**. Really and truly, you would be surprised how a whispered conversation will add up and cascade, so that the people in the back can't hear. It would be courteous if the people in the front of the room here would whisper rather than murmur.

Mr. **Archer**. As a fellow Texan, I'm sure Jake will agree with me that serving on the Social Security Subcommittee during a hearing on the so-called notch is a little like defending the Alamo—again. I want to assure the Members who have asked to testify today that I will continue to stand with Jake and our current chairman, Andy Jacobs, in a bipartisan effort not to compound one mistake by enacting another.

Also, I should confess to a certain partisan amusement. It has come to my attention that the minority views, appended to the 1977 Social Security Amendments, are being misquoted as reflecting congressional intent for those amendments. As one who signed those views, let me clarify that those remarks described a Republican alternative which unfortunately was defeated on the floor of the House. While it is true that part of that alternative called for a longer transition period, the House-Senate conference on the 1977 amendments included a 5-year transition, and this was adopted by both Houses in lopsided votes, thus clearly establishing it as congressional intent. Although I was in a definite minority on this issue, I do not like to see this type of misrepresentation.

But that is history. The record is clear. The 1972 amendments were flawed, creating an unintended increased benefit beyond what had truly been earned. In 1977, when it was clear that the trust fund was going to be reduced to levels that were entirely too low to create security in the program, it was corrected. The GAO has done a professional job of reporting the results and the consequences of the projected fix.

For me, as I suspect for most of us who are familiar with the issue, the GAO report contains few surprises. Perhaps some of those born in 1917 will be surprised to find that they, too, have benefited compared to most other workers born before 1915, or after 1917. That generalization illustrates a part of the problem. The notch did not impact evenly. The most dramatic impact is on upper income workers who continue to work after age 62. Those who retired at age 62 with low to average earnings histories have the least differences in benefits.

I am sure we will be hearing a mind-boggling number of facts and figures today. While our minds are still relatively fresh this morning, let me tell you about my concerns for long-term generational equity, which I assume is what these hearings are all about.

A worker born in 1926—who would, I believe, benefit from H.R. 3788, Mr. Ford's bill—has paid to date accumulated OASI taxes ranging from approximately $5,700 to $22,500. That's for an entire work life. The exact amount would depend on whether a worker earned minimum, average or maximum earnings.

Parenthetically, let me say that very few young workers enter the labor force at 22 with maximum earnings, and I doubt that few labor steadily for 40 years at minimum wages. So let us track the average worker, who would have paid in just under $12,000, and would receive a reduced benefit of $517 a month. He or she will have paid in more OASI taxes than those born in earlier years with the same earnings history and retirement age. This holds true for each successive year because the FICA tax rates and wage base continue to rise.

Our average worker, then, who is eligible for reduced benefits this year at age 62, may recover the accumulated OASI taxes in 24 months—just 2 years. In 24 months, he will recover all of what he paid in during his entire work life. If we add the tax paid by the employer, the total recovery would take 47 months.

I realize that some may argue that my calculation ought to include disability and health insurance taxes, or interest. Still, given today's life expectancies, current beneficiaries, by any reasonable standard, will get more than their money's worth from Social Security, even if the disability protection already provided is not taken into account.

The picture is much less rosy for future retirees, however, and that's where I get into generational equity. The average worker who takes a reduced benefit at age 65, not 62, in the year 2020, would need 13 years to recover total contributions.

Now, how is that generational equity, compared to the 4 years that is needed today for the average worker, getting a reduced benefit, to recover all of the taxes paid in during his entire work life?

I agree completely with GAO's conclusion that any notch remedy should be as neutral as possible in its effect on the Social Security trust funds. I simply don't see how the Congress can ask the worker who will retire in the year 2020 to shoulder the cost of liberalizing a notch transition again.

Let me conclude by saying a few words about the hidden costs of the notch bills. H.R. 3788, for example, would cost $67.5 billion through the year 1996. It would also reduce the 1996 projected trust fund reserves from $697 billion to $589 billion, a decline of more than $100 billion in a fund that most of you in this audience have to depend on to be secure in order to pay your benefits. The difference in calculations represents the interest income the trust funds would accrue if the $67.5 billion were invested and not spent.

Mr. Chairman, if today's witnesses can tell us how to remedy the notch without passing along a $100 billion past due notice to future generations, I will consider running up the white flag. However, as GAO concluded, using current trust funds effectively shifts the burden to future retirees. In my view, that would violate our responsibility for prudent trust fund management.

Yes, we made a mistake in 1972. I voted against that bill. But there was a mistake and flaw in it that unintentionally paid benefits beyond what were earned to a certain set of retirees.

In 1977, when the correction was made, if the Congress had had the courage, they should have gone back and reduced the benefits that were unintentionally too high. But, the Congress didn't have the courage to do that. And so they put a transitional 5-year phase-in period and gave adequate notice to retirees after that time that they couldn't continue to pay those kind of benefits that were not justified by the taxes paid in during the work life.

It is very much like the parable of the workers in the vineyard in the Bible, where the workers who were promised a certain amount to come in and work all day picking grapes. In the middle of the day the owner of the vineyard said I don't have enough workers to do the job, so he went out and got more workers, and they worked a half-a-day. At the end of the day he paid them both the same amount of money. The workers who worked all day long came in and complained bitterly. He said, "Have I not paid you everything that I contracted in which you have earned? Should you criticize me if I have paid others more?" This is a very similar situation.

Mr. Chairman, I apologize for the length of my statement, but I also want to conclude by saying that Mr. Bob Myers, who is virtually the father of Social Security and was the actuary during the very beginning years, had intended to be with us today. But the subcommittee changed the date, as you know, and he simply could not readjust his busy schedule because of other commitments.

I would like to see that his statement that he would have made be inserted in the record. He would be very grateful if you would be willing to make public note of his testimony and express his regret for ~~not being~~ able to attend.

Essentially, he backs the GAO report, calling it an excellent objective analysis.

Mr. Chairman, thank you very much.

Chairman JACOBS. Thank you, Mr Archer.

Without objection, the statement of Mr. Myers will be included in the record, and it is noted that the change in the date made it inconvenient for him to be here.

Mr. Daub.

Mr. DAUB. Mr. Chairman, thank you very, very much for holding this hearing. I want to commend you as a gentleman true to your word that you gave to me last year, that upon the receipt of this report you would hold these hearings with dispatch. I think it is going to be a useful opportunity for all of us to get better acquainted with a controversial issue.

I say to my colleague who just addressed this issue so eloquently in his opening statement that there is no one for whom I have more respect in the Congress, and as a ranking member of this committee, and my leader, I know of no one more knowledgeable on Social Security. He has been a champion, fighting to be sure that the Old Age and Survivors Insurance Trust Fund is sound and safe and solvent, and that is our objective. I agree with him and I appreciate his explanation.

I will, however, at this point commence to make my statement about the notch issue, which is where we depart, and I feel that this is a situation which needs to be corrected and that can be corrected.

I believe it is important for all who are interested to, as they say in this place, give the devil his due, to learn to be objective and assess the merit of the opposing argument. Ladies and gentlemen, there is merit in the opposing argument.

In the 1971–72 timeframe, when we put a cost-of-living adjustment into the basic formula, there were arguably two compensations for inflation. I understand that, and one could argue that people who retired, that got their first check between 1971 and 1978, did get a payment greater than might have been intended.

But the way to solve the problem was not to penalize people without any advance warning, people who had worked hard all their lives, many of them veterans, and woke up in 1978, a couple of months after the 1977 bill was enacted, and found out that their table of benefits was adjusted downward, for whatever good reason, by between $40 and $140 a month, and they had not yet had time to reconfigure their retirement income. It's much like the 1983 amendments, where we decided to raise the retirement age to 67, but we didn't start it until the year 2000 and we phased it up very slowly to the year 2027. We made some sense out of the need to make a correction and we set it ahead far enough so people had a chance to plan. That is fairness, and that is why I propose my legislation, called H.R. 1721, an effort to take into account the logic of what happened and the future concerns we have about the safety, soundness and solvency of our Old Age and Survivors Insurance Trust Fund.

So we are here today to discuss what went wrong with the Social Security amendments back in 1977, and how we should address the problem, a problem whether real or imagined, which must be confronted immediately.

The General Accounting Office report can be looked upon as a source of edification for some very complicated questions. The report verified that the notch does exist, or more specifically, that there are benefit differences between those who were born on or before 1916 and those born between 1917 and 1921.

This issue has fostered a large degree of lost faith in the Social Security system on the part of those individuals born during the years 1917 to 1921. Many of the more than 7 million workers born after 1916 who have filed for retirement benefits during the past 8 years have vigorously expressed concern about the situation.

I share this concern, and I have worked to address the matter for the past several years.

In 1986, the House Social Security Subcommittee directed the General Accounting Office to conduct a thorough study of the notch. After much anticipation, the GAO study has finally been released.

Several bills have been introduced to address the notch problem. Some notch bills propose to return to the old, flawed 1982 formula. Others would lengthen the phase-in period and notch more retirees. My bill is based on congressional intent. The transitional guarantee formula reduces benefits incorrectly and it must be modified.

I have introduced "The Notch Baby Act of 1987," referred to as House Resolution 1721, which is responsive to the needs of over 7 million notch babies. It will allow Social Security beneficiaries born in the years 1917 to 1921 to become eligible for a new alternative transitional computation method, which would affect benefits for months after December 1987.

This new alternative computation would guarantee a benefit of no less than the worker's benefit based upon new law wage-indexing procedures; that is, the average indexed monthly earnings or AIME benefit, plus a declining percentage of the difference between, first, the benefit which would have resulted if the pre-1977 law had remained in effect, but modified to include only the 3 years of earnings after the year of attainment of age 61, and second, that AIME benefit.

This formula allows for a phase-in of the new benefit computation created by the 1977 Social Security amendments that is uniform and follows congressional intent relative to the 1977 law. And I want to emphasize that the declining percentages used in my formula are a function of providing a uniform phase-in. They are not indicative of the difference between old law and new law.

Now, I want to refer you all to chart number 1, if I could have one of my helpers go down to the chart, on our audience's right and our panel's left.

Graph number 1 describes all the legislation that has been introduced. And would you refer to the line on my bill that takes current law and interdicts it?

The basic philosophy behind H.R. 1721 is simple and can be represented graphically. Under old law, there is a precipitous drop in benefits for those born between 1917 and 1921, whereas under my bill, the drop in benefits for notch babies would be less abrupt.

Individuals born before 1917 are receiving benefits under a different formula—that formula initiated in 1972—that erroneously results in their receiving dual compensation for inflation increases. Had the 1972 formula been maintained, the Social Security system would have gone bankrupt. The 1977 Social Security amendments bill, which affects everyone born after 1916, restored the system to solvency.

In order to protect the benefits of people already receiving or about to receive Social Security, the 1977 amendments did not change the computation rules for anyone reaching age 62 before 1979.

Further, so as to gradually phase in the benefit change, individuals becoming eligible for retirement benefits who reached age 62 in the 1979 to 1983 timeframe, were allowed to compute their benefits under the new rules, or the old rules. That's very important for everybody to understand. They could compute their benefit under the old rule or the new rule, whichever would result in higher benefits. The modified old law formula is called the transitional guarantee and is available to all individuals born from 1917 to 1921.

Despite the efforts to provide a fair phase-in in the necessary 1977 law, many individuals born in the years 1917 to 1921 find that their benefits are much lower than people with identical work histories born in 1916 and earlier. To a large degree, this is evident because those people born before 1917 were able—and this is important, I say to my colleagues—were able to take advantage of the unexpected high inflation years of 1978 to 1981 that were included when the benefit calculations were made.

H.R. 1721 addresses the unanticipated disparities created by the 1977 law by allowing what we now call—and Ann Landers and Dear Abby and even Paul Harvey, I say to my chairman, have popularized the term, and they're more powerful politicians that we realize—the notch babies to calculate earnings after age 61 on par with those individuals born before 1917 and by providing a percentage of the difference between the old law and the new law.

Now I would like to refer, in conclusion, to graph number 2. I believe that my bill, which will cost approximately $24.3 billion from 1988 to 1996—an average of $2.7 billion a year—is a reasonable and responsible approach to solving the problem. It may not give to everyone all that he or she wants, but it does provide for the elements of fairness that I think are called for.

If you look at the comparisons, the blue line is the Roybal bill, H.R. 1719; and my friend, Mr. Archer, was accurate, the cost is approximately $67.5 billion, and the time value of money with that remaining in the trust fund is approximately $100 billion. The red line on the chart is the Ford bill, its equal in the Senate is the Sanford bill, and the D'Amato bill is represented on the chart in purple.

My bill is the green line. Senator Heinz has introduced a nearly equivalent bill in the Senate. The cost estimates by the GAO I think are accurate. If my colleagues would read the report, they will find that the cost expressed as a percent of taxable payroll is 0.08 to the Roybal bill, 0.07 for the Ford and Sanford bill, and 0.35 for the D'Amato bill.

My cost, in equivalent terms, is 0.02 percent, and it does not impact on the 25, 50, or 75 year actuarial projections. It will not invade nor erode the soundness, the safety, and the solvency of the trust fund.

I am encouraged by the hearings, by the attendance today, and by the distinguished set of panelists that the Chairman and the staffs of the majority and minority have put together. I am anxious to hear the testimony, and I appreciate the committee's indulgence, as I am one of the members of the committee who is originally cosponsoring an effort to provide a reasonable and fiscally responsible solution to a problem that, in fact, does exist.

Thank you, Mr. Chairman.

[The statement of Hon. Hal Daub follows:]

STATEMENT FOR THE RECORD
THE HONORABLE HAL DAUB
THE HOUSE WAYS AND MEANS SOCIAL SECURITY SUBCOMMITTEE
HEARING ON THE REPORT OF THE GAO ON THE "NOTCH"
APRIL 14, 1988

Good morning. I thank all those who have labored on both sides of the "notch" issue. Both proponents and opponents of "notch" legislation in most instances have demonstrated a deep concern for both the future of the Social Security system and the well-being of Social Security recipients.

As a former member of the House Select Committee on Aging and a present member of the House Ways and Means Social Security Subcommitte, I have been a participant in the continuing evolution and refinement of the Social Security system -- a system which has been harshly criticized by some and lavishly praised by others.

In the recently published book titled Social Security -- The System That Works, authors Merton C. Bernstein and Joan Bernstein said the following in their prologue:

> Sooner or later, most of us will need retirement income. The good news is that we can depend on Social Security benefits to be there when we need them. Social Security benefits alone, however, will not enable most to maintain their accustomed living standards after retirement. So, supplementation is needed, either from private plans, savings, or a more generous Social Security program; otherwise many will face declining living standards throughout their older years. The bad news is that other retirement income plans are surprisingly less dependable. Many participants won't get benefits; for those who do, benefits will probably be degraded by inflation.

This cogent excerpt summarizes all that is good and all that is bad in Social Security.

History teaches us to prepare for the bad and be thankful for the good. We in Congress historically have had only the best intentions in legislating Social Security, but what happens when the best intentions yield undesired results? More to the point, what happens when a person retires anticipating a fair shake from Social Security and receives a benefit which is less than he ever expected it to be?

The logical consequence is that the person will fight for the anticipated benefit, regardless of extenuating circumstances -- such is human nature.

We are here to discuss what went wrong with Social Security back in 1977, and how we should address the problem -- a problem, whether real or imagined, which must be confronted immediately.

The General Accounting Office (GAO) report can be looked upon as a source of edification for some very complicated questions. The report verified that the "notch" does exist, or more specifically, that there are benefit differences between those who were born on or before 1916 and those born between 1917-21.

This issue has fostered a large degree of lost faith in the Social Security System on the part of those individuals born in the years 1917-21. Many of the more than seven million workers born after 1916 who have filed for retirement benefits during the past eight years have vigorously expressed concern about the situation.

I share this concern, and I have worked to address the matter for the past several years.

In 1986 the House Social Security Subcommittee directed the General Accounting Office to conduct a thorough study of the "notch." After much anticipation, the GAO study has finally been released.

Several bills have been introduced to address the "notch" problem. Some "notch" bills propose to return to the old, flawed 1972 formula. Others would lengthen the phase-in period and "notch" more retirees. My bill is based on congressional intent. The transitional guarantee formula reduces benefits incorrectly and must be modified.

I have introduced "The Notch Baby Act of 1987" (HR 1721) which is responsive to the needs of the over seven million "notch babies."

"The Notch Baby Act of 1987" will allow Social Security beneficiaries born in the years 1917-21 to become eligible for a new alternative transitional computation method, which would affect benefits for months after December 1987.

This new alternative computation would guarantee a benefit of no less than the worker's benefit based upon new law wage-indexing procedures--that is, the average indexed monthly earnings or AIME, benefit--plus a declining percentage of the difference between, first, the benefit which would have resulted if the pre-1977 law had remained in effect, but modified to include only the 3 years of earnings after the year of attainment of age 61, and second, the law (AIME) benefit.

This formula allows for a phase-in of the new benefit computation law created by the 1977 Social Security amendments that is uniform and follows congressional intent relative to the 1977 law. And I want to emphasize that the declining percentages used in the formula are a function of providing a uniform phase-in; they are not indicative of the difference between old law and new law.

The basic philosophy behind H.R. 1721 is simple and can be represented graphically. Under old law there is a precipitous drop in benefits for those born between 1917-1921; whereas, under H.R. 1721, the drop in benefits—for "notch babies" would be less abrupt.

Individuals born before 1917 are receiving benefits under a different formula -- initiated in 1972 -- that erroneously results in their receiving dual compensation for inflation increases. Had the 1972 formula been maintained, the Social Security system would have gone bankrupt. The 1977 Social Security amendments bill, which affects everyone born after 1916, restored the system to solvency.

In order to protect benefits of people already receiving or about to receive Social Security, the 1977 amendments did not change the computation rules for anyone reaching age 62 before 1979. Further, so as to gradually phase-in the benefit change, individuals becoming eligible for retirement benefits by reaching age 62 in 1979-83 were allowed to compute their benefits under new rules or under the old rules with some limitations, whichever would result in higher benefits. The modified old law formula is called the transitional guarantee and is available to all individuals born from 1917 to 1921.

Despite these efforts to provide a fair phase-in in the necessary 1977 law, many individuals born in the years 1917 to 1921 find that their benefits are much lower than people with identical work histories born in 1916 and earlier. To a large degree, this is evident because those people born before 1917 were able to take advantage of the unexpected high inflation years of 1978 to 1981 in their benefit calculations.

HR 1721 addresses the unanticipated disparities created by the 1977 law by allowing "notch babies" to calculate earnings after age 61 on par with those individuals born before 1917 and providing a percentage of the difference between old law and new law.

I believe that this bill, which costs $24.3 billion from 1988-1996-- an average of $2.6 billion per year-- is a reasonable and responsible approach to resolving the "notch" problem.

Through legislation such as HR 1721 and a substantive Congressional effort, faith in the Social Security system will be restored and the "notch" will be addressed.

Chairman Jacobs, I thank you for holding this hearing and I look forward today to a healthy discussion on this important issue.

Chairman JACOBS. Thank you, Mr. Daub. We appreciate your fiscal responsibility.

[By subsequent unanimous consent, the statement of Mr. Crane was inserted at this point in the record:]

OPENING STATEMENT OF HON. PHIL CRANE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Thank you, Mr. Chairman. I appreciate the leadership you and Mr. Archer have demonstrated in protecting the solvency of the Social Security trust funds. Of necessity, any discussion of the so-called notch must include a discussion of those funds. I look forward to hearing the testimony of the General Accounting Office, and the other witnesses, who have made the effort to appear before us today. I realize that the notch is a sensitive issue, one on which views are polarized. I would urge our witnesses to remember the words of our colleague in the Senate, Patrick Moynihan: "You are all entitled to your own opinions, but not to your own facts."

I found the GAO report a good, factual basis for today's hearing. I particularly appreciate the fact that GAO presented much of the analysis in terms of replacement rates, that is the ratio of the retirement benefit—today at age 65—against the amount of the last month of earnings. That gives us a useful comparison. Prior to retirement a worker's benefit is protected by wage-indexing, the benefit formula which allows for the growth of wages over his or her working lifetime. After retirement a benefit is protected by COLAs. But, these continuing adjustments mean that dollar comparisons of benefits can be misleading.

Perhaps some of you remember an article last October in Parade Magazine entitled : "How Secure Is Your Social Security" by Bernard Gavzer. Among other subjects, Mr. Gavzer discussed the notch. To illustrate the disparity in benefits, the author compared two workers born in 1910 and 1911, respectively, who worked for maximum earnings and who retired at age 65. The worker born in 1910 got $316 a month; the worker born in 1911 got $364, or 15 percent more.

That's accurate, but not the whole picture. The worker born in 1910, who retired in 1975, got a COLA in June 1975 increasing his payments to $341.60 a month. That is the amount he was receiving at the point when his neighbor born in 1911 retired. So, the actual difference in 1976 would have been $22.40 a month, or about 6½ percent, not 15 percent.

My intent is not to take issue with Mr. Gavzer for his well researched article, but to point out that the computation of benefits is complex and comparisons easily can mix apples and oranges.

The legislation in 1972, which automated COLAs, and the legislation in 1977, which fixed the 1972 formula, have combined to create, as GAO pictured it, a mountain in the replacement rates. That mountain peaked for those born between 1913 and 1917. GAO's analysis certainly supports the finding that those born after 1917 suffer by comparison with those at the peak. Comparatively those born before 1909 are even worse off. Yet none of the notch bills propose any relief for those who came before the notch.

Finally, I note that the GAO recommends that if we enact legislation, it be as neutral as possible on the current and projected trust fund balances. I agree with that. The amount of reserves in the Old Age and Survivor Trust Fund as of January 31, 1988—was $66.4 B, about 3 months of reserves. That is a very small margin to protect current beneficiaries in the event of an economic downturn.

However, even if the economy continues to perform well, reserves used to remedy the notch reduce the reserves accumulating for the baby boomers. As GAO notes "Because of the need to correct the benefit formula in the context of a current-cost system, there must be some group willing, or required, to accept a slight lowering of benefits relative to taxes paid. Whatever the merits of various notch legislation, most of the major proposals attempt to shift the burden of paying to 'correct' the benefit formula off into the future."

Since today's workers are already paying the highest FICA taxes in history, and are looking forward to a "normal retirement age" of 67, rather than today's 65, is it fair to shift that burden onto their shoulders?

I know many of today's witnesses will tell us why it is unfair that they shoulder the corrections. Still, when we enacted legislation in 1977, fixing the "notch," we were assured by then President Carter that social security trust funds would be solvent for the next 50 years! Yet by 1981, social security was on the verge of bankruptcy. I believe we must approach, with great caution, any legislation which jeopardizes the solvency of the program.

Most young people under 35 today are profoundly skeptical over the existence of any social security for themselves in retirement even though they will pay an arm and a leg in social security taxes before there is any acknowledgement confirming this suspicion. But when the "Baby Boomers" start reaching retirement, with zero population growth (today even less than zero) for almost two decades, there will be only about 1¾ people in the workforce for every person in retirement. It is virtually impossible to visualize a viable social security program at that time—at least as we know it today. No generation has a right to squander the legacy of the unborn. And no generation is more sensitive to this fact than grandparents, a station in life I reached this year.

Chairman JACOBS. The first panel is that of the U.S. General Accounting Office, and their purpose, I suppose, is to mess up our thinking with some facts. So if you will come forward—the "spoilers."

STATEMENT OF JOSEPH F. DELFICO, SENIOR ASSOCIATE DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY LAURIE EKSTRAND, GROUP DIRECTOR, AND KEN BOMBARA, STAFF ECONOMIST

Mr. DELFICO. Mr. Chairman and members of the subcommittee, with your permission, I would like to insert the full testimony for the record and present a brief summary.

Chairman JACOBS. Without objection, so ordered.

Mr. DELFICO. With me today are Laurie Ekstrand, a Group Director at GAO, and Ken Bombara, our staff economist.

I am pleased to appear before you today to discuss the results of our study of the Social Security notch issue. This issue has been a concern of your subcommittee and Members of Congress for the past 9 years, and a concern of many of the Nation's elderly who feel that they have not been treated fairly by the Social Security system.

The notch refers to differences in the benefits received by individuals with similar work histories. In general, individuals born in 1916 were covered by old rules and received higher benefits than individuals with similar earnings histories who were born in 1917 and were covered by new rules.

To understand how these benefit differences arose, it is necessary to review the broader pattern of changes occurring over the last 15 years in the Social Security benefit computation rules. The chart attached to my statement, which is at the end of my statement, and the chart to the right in the hearing room shows the replacement rates under Social Security. These rates are for workers retiring at age 65, in successive years, over the period 1965 to 2010. In this chart, the replacement rate is defined as the age 65 retiree's benefit divided by his or her wages at age 64. The individuals shown are those who retired at age 65 after having always earned a wage equal to the average under Social Security.

The chart shows that replacement rates were relatively stable in the late 1960s. In the early 1970s, however, they began to rise, meaning that the initial benefit awarded to age 65 retirees was increasing at a faster rate than was preretirement earnings.

Shortly after the Congress instituted automatic adjustments for inflation in 1972, it was discovered that the method used to adjust benefits was flawed. Specifically, at rates of inflation that we began experiencing in the 1970s, the adjustment procedure had the effect of overindexing the benefits of future retirees. As a result of this flaw, replacement rates began to rise steadily.

Had the benefit computation rules not been changed and inflation continued, the flaw eventually would have increased Social Security benefits to a point where an average earner would have received more in retirement benefits from Social Security than he or she earned before retirement. Clearly, the computation rules had to be changed, and these changes were made in the 1977 Social Security Amendments.

The Congress decided to set the replacement rate for an average earner at about 42 percent, which was roughly the level prevailing in 1975-76. That decision meant that workers under the new system would receive higher replacement rates than had been afforded similar workers retiring in the late 1960s and early 1970s, but they would not get as much as the old rules would produce for the prenotch group. The Congress decided that this prenotch group should be allowed to use the old formula, even if it resulted in their getting higher benefits than similar retirees that came before or would follow afterwards.

In combination with the old, flawed formula, the rapid inflation occurring in the late 1970s and early 1980s caused the benefits of the prenotch group to rise even faster than had been expected, and thus the gap between the old law and the new law benefits became even greater.

When it adopted the new benefit computation rules in 1977, the Congress was also concerned that the new rules might cause significant changes in the benefit amounts to be awarded some individuals who were close to retirement. It adopted a special transition formula to ease the changes in benefits.

The first group of age 65 retirees to which the new rules applied retired in 1982; they are the notch group. Workers who have always earned the average wage and retired in that year, as well as in the next several years, would have received the transition benefit rather than the lower replacement rate which was to be afforded to those retiring in the late 1980s and thereafter. In the chart, we see that the replacement rates begin to fall for age 65 retirees after 1981, but they do not fall to the 42 percent level until 1984.

In our view, the 1977 amendments achieved their purpose of stabilizing future replacement rates. However, controversy still surrounds the differences in benefits between the notch group and others.

Legislation to correct the notch has been proposed in many forms and assumes that compensation is warranted. Even so, a policy decision to address the notch must deal with pragmatic and complicated questions of cost, who pays, who benefits, and whether a solution is administratively feasible.

Legislative proposals to diminish the notch are costly. The Social Security Administration estimates that additional payments to beneficiaries through 1996 under various proposals could range from about $20 billion to over $300 billion. For the most part, proposals to diminish the notch lack specific financing mechanisms. This implies that we should be using current trust fund balances to pay the higher benefits. However, using these balances to finance higher benefits to notch recipients would slow the system's attainment of minimum contingency levels and could put the system at additional risk should we experience an economic downturn in the next few years. Reducing current trust fund balances also adversely affects the system's long-run actuarial balance.

Other options for financing notch remedies involve either increasing revenues through payroll taxation, or reducing other expenditures, such as by slowing the growth of benefits for those under the old law. This latter option has merit because retirees under the old law were overcompensated, but it has been considered in the past and rejected. It would require that Congress reassess its decision in 1977 not to affect the benefits of those attaining eligibility before the new law's implementation in 1979.

The option of raising payroll taxes presents additional complications. Because of the 1983 amendments to the Social Security Act, current workers are paying higher payroll taxes than previous workers who financed the system on a pay-as-you-go basis. Imposing additional taxes on these current workers to finance a higher replacement rate for the notch group—many of which already receive a higher replacement rate than can be anticipated by current workers—raises another significant equity issue.

In our view, the Congress should keep the effect of notch legislation on current and projected trust fund balances as neutral as possible. Given the constraints on alternative financing mechanism that I have mentioned, this means that the cost of any notch legislation must be low.

In deciding whether to adopt notch legislation, other factors relating to the matter of who benefits should also be considered. Because of Social Security cost-of-living increases that outpaced wage increases, many notch retirees benefitted relative to nonretired groups from the inflation of the 1970s and early 1980s. Thus, while those in the transition may be worse off relative to those born immediately preceding them, in many instances they gained relative to the current workers who now contribute to pay their benefits.

While the elderly have become better off as a group over time, we recognize that many remain poor. However, notch legislation is not likely to do much to make the poor better off. The pattern of the notch disparity and the data on income and assets we examined suggests that notch legislation will tend to benefit those who, on average, have higher retirement incomes and greater asset holdings. Furthermore, those who tend to be in poorer health are more likely to have lower lifetime earnings and retire early, and thus experience smaller benefit disparities.

One additional matter that the Congress should be concerned about is the implementation of notch legislation. Although we were not asked to focus on this aspect specifically, discussions with the Social Security Administration staff suggest that implementation of notch remedies might be difficult.

Depending on the form of the legislation, SSA could be required to perform benefit recomputations for millions of recipients. Practical limitations of the agency's computer software could require many recomputations be performed by hand. This would place an additional burden on an agency that has already experienced recent staff cuts and resource cuts and could require additional expenditures or reallocation of agency resources.

We believe that notch legislation should not be adopted without careful consideration of SSA's ability to efficiently and effectively implement it, and bear the administrative costs that are associated.

That completes my statement, Mr. Chairman. My colleagues and I would be pleased to respond to your questions.

[The statement of Joseph F. Delfico follows:]

Statement of
Joseph F. Delfico, Senior Associate Director
Human Resources Division
United States General Accounting Office

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the results of our study of the social security notch issue.[1] This issue has been a concern of your subcommittee, and the Congress, for the past nine years, and of many of the nation's elderly who feel that they have not been treated fairly by the Social Security system.

WHY THE NOTCH OCCURRED

The "notch" refers to differences in the benefits received by individuals with similar work histories who first became eligible for social security benefits just before or just after January 1, 1979, the date upon which a new set of social security benefit computation rules became effective. In general, individuals born in 1916 (who turned 62 during 1978) were covered by the old rules and received higher benefits than individuals with similar earnings histories who were born in 1917, (who turned 62 during 1979) and were covered by the new rules.

To understand how these benefit differences arose, it is necessary to review the broader pattern of changes occuring over the last fifteen years in the social security benefit computation rules. The chart attached to my statement shows the actual history of, and current projections for, replacement rates under social security. These rates are for illustrative workers retiring at age 65, in successive years over the period 1965 to 2010. In this chart, the replacement rate is defined as the age 65 retiree's benefit divided by his or her wages at age 64. The individuals shown are those who retired at age 65 after having always earned a wage equal to the average under social security.

The chart shows that replacement rates were relatively stable in the late 1960s. In the early 1970s, however, they began to rise, meaning that the initial benefit awarded to age 65 retirees was increasing at a faster rate than was the preretirement earnings of the age 65 retirees. The increase in replacement rates prior to 1973 was intended; in 1972 the Congress had legislated a 20 percent benefit increase and had provided that social security benefits should be automatically adjusted for changes in the cost of living thereafter. The increase occuring after 1973 was not intended.

Shortly after the Congress instituted automatic adjustments for inflation, it was discovered that the method used to adjust benefits was flawed. Specifically, at the rates of inflation that we began experiencing in the mid 1970s, the adjustment procedure had the effect of over indexing the benefits of future retirees. As a result of this flaw, replacement rates began to rise steadily.

Had the benefit computation rules not been changed and inflation continued, the flaw eventually would have increased social security benefits to a point where an average earner would have received more in retirement from social security than he or she earned before retirement. Clearly the computation rules had to be changed, and these changes were made in the 1977 Social Security Amendments. In changing the rules, however, the Congress had to make several important decisions. Among these were: (1) what replacement rate should be afforded future retirees, and (2) to whom should the new computation rules first apply?

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[1] Social Security: The Notch Issue, GAO/HRD-88-62, March 1988.

The Congress decided to set the replacement rate for an average earner at about 42%, which was roughly the level prevailing in 1975-76. That decision meant that workers under the new system would receive higher replacement rates than had been afforded similar workers retiring in the late 1960s and early 1970s, but would not get as much as the old rules would produce for workers retiring in 1978 or 1979 (the pre-notch group). Since the new system was to become effective on January 1, 1979, the Congress also had to decide how to calculate the benefits of persons who would be eligible prior to January 1, 1979 (that is, those who were at least 62 years old on that date). The Congress decided that this pre-notch group should be allowed to use the old formula, even if it resulted in their getting higher benefits than similar retirees that came before, or would follow afterwards. In combination with the old, flawed formula, the rapid inflation occuring in the late 1970s and early 1980s caused the benefits of the pre-notch group to rise even faster than had been expected, and thus made the gap between old law and new law benefits even greater.

When it adopted the new benefit computation rules in 1977, the Congress was also concerned that the new rules might cause significant changes in the benefit amounts to be awarded some individual workers who were close to retirement. It adopted a special transition benefit formula for persons reaching age 62 in the first five years after the new system went into effect. That formula provided an alternative computation which could be used to calculate retirement benefits, if use of the alternative resulted in higher benefits.

The first group of age 65 retirees to which the new rules applied retired in 1982; they are the notch group. Workers who had always earned the average wage and retired in that year -- as well as in the next several years -- would have received the transition benefit, rather than the lower replacement rate which was to be afforded to those retiring in the late 1980s and thereafter. In the chart, we see that the replacement rates begin to fall for age 65 retirees after 1981, but they do not fall to the 42 percent level until 1984.

In summary, replacement rates under social security rose steadily through the 1970s, largely as the result of a flaw in the automatic adjustment procedure adopted in 1972. When the Congress fixed the formula in 1977, it decided that future replacement rates would be set at levels which were somewhat higher than had prevailed in the early 1970s, but were lower than the formula would produce for persons retiring in the late 1970s. The notch group is the first group of retirees to have their benefits computed under the new law. They received lower replacement rates than did those who retired just before them, but because of the transition rules, many of them received higher replacement rates than those who will retire after them.

In our view, the 1977 Amendments achieved their purpose of stabilizing future replacement rates. However, controversy still surrounds the differences in benefits between the notch group and others.

CONSIDERATIONS FOR EVALUATING LEGISLATIVE PROPOSALS

Legislation to "correct" the notch has been proposed in many forms and assumes that compensation is warranted. Even so, a policy decision to address the notch must deal with pragmatic and complicated questions of cost, who pays, who benefits, and whether a "solution" is administratively feasible.

Legislative proposals to diminish the notch are costly. The Social Security Administration estimates that additional payments to beneficiaries through 1996 under various proposals could range from about $20 billion to over $300 billion. For the most part, proposals to diminish the notch lack specific financing mechanisms. This implies using current trust fund balances to pay the higher benefits. However, using these balances to finance higher benefits to notch recipients would slow the system's attainment of minimum contingency levels and could put the system at additional risk should we experience an economic downturn in the next few years. Reducing current trust fund balances also adversely affects the system's long run actuarial balance.

Other options for financing notch remedies involve either, increasing revenues through payroll taxation or, reducing other expenditures such as by slowing the growth of benefits for those under the old law. This latter option has merit because retirees under the old law were overcompensated. But it has been considered in the past and rejected. It would require that Congress reassess its decision in 1977 not to affect the benefits of those attaining eligibility before the new law's implementation in 1979.

The option of raising payroll taxes presents additional complications. Because of the 1983 Amendments to the Social Security Act, current workers are paying higher payroll taxes than previous workers who financed the system on a pay-as-you-go basis. Imposing additional taxes on these current workers to finance a higher replacement rate for the notch group (many of which already receive a higher replacement rate than can be anticipated by current workers) raises another significant equity issue.

In our view, the Congress should keep the effect of notch legislation on current and projected trust fund balances as neutral as possible. Given the constraints on alternative financing mechanisms mentioned above, this means that the cost of any notch legislation must be low.

In deciding whether to adopt notch legislation, other factors relating to the matter of "who benefits," should also be considered. Because of social security cost-of-living increases that outpaced wage increases, many notch retirees benefited relative to non-retired groups from the inflation of the 1970s and early 1980s. Thus, while those in the transition may be worse off relative to those born immediately preceding them, in many instances, they gained relative to the current workers who now contribute to pay their benefits.

While the elderly have become better off as a group over time, we recognize that many remain poor. However, notch legislation is not likely to do much to make the poor better off. The pattern of the notch disparity and the data on income and assets we examined, suggests that notch legislation will tend to benefit those who, on average, have higher retirement incomes and greater asset holdings. Furthermore, those who tend to be in poorer health are more likely to have lower lifetime earnings and retire early, and thus experience smaller benefit disparities.

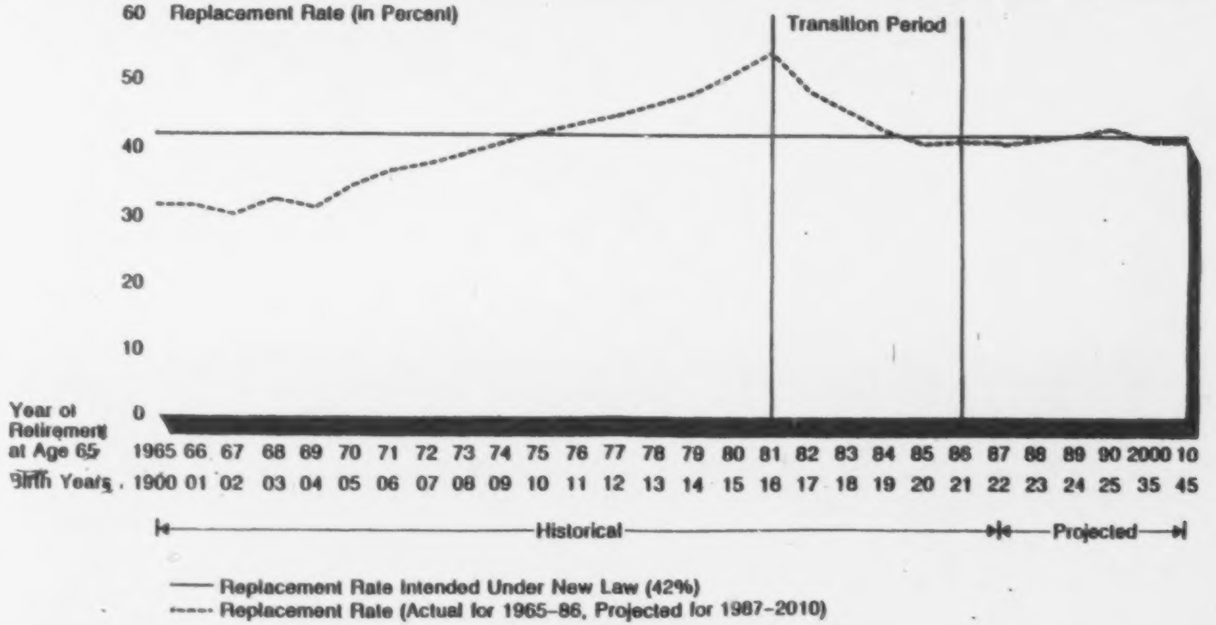
Another matter concerns the length of the transition period. The original five year period provided adequate notice of the change to a new benefit formula. Extending the transition period would draw more individuals into the controversy and could extend higher benefits to those who now come fully under the new law formula. It is our opinion that extension of the transition period is not warranted.

One additional matter the Congress should be concerned about is the implementation of notch legislation. Although we were not asked to focus on this aspect specifically, discussions with SSA staff suggest that implementation of notch remedies might be difficult. Depending on the form of legislation, SSA could be required to perform benefit recomputations for millions of recipients. Practical limitations of the agency's computer software could require that many recomputations be performed by hand. This would place an additional burden on an agency that has already experienced recent staff and resource cuts and could require additional expenditures or reallocation of agency resources. We believe that notch legislation should not be adopted without careful consideration of SSA's ability to efficiently and effectively implement it, and bear the associated administrative costs.

That completes my prepared statement, Mr. Chairman. My colleagues and I would be pleased to respond to your questions.

GAO

Replacement Rates for an Average Earner Retiring at Age 65, 1965–2010



Chairman **Jacobs**. Mr. Gibbons.

Mr. **Gibbons**. No questions.

Chairman **Jacobs**. Mr. Archer.

Mr. **Archer**. Thank you for your very thoughtful analysis and presentation.

I would like to ask you just a couple of questions. If inflation increases again, as it did in the Seventies, and we were to enact some of the so-called corrections to raise the benefits for retirees, would we not see the same problem of the seventies in the future, as far as the major diminishment of the trust fund?

Mr. **Delfico**. It depends on which one of the pieces of legislation you would be considering, Mr. Archer. I think for the most part what would be affected by inflation would be the wage base. Wage bases are included in all calculations, whether they be the new law or any of the proposals. In that case, that's how inflation would affect the benefits for people who have not retired as of yet. Benefits for those who have retired, of course, would be affected by COLAs instituted because of inflation increases.

Mr. **Archer**. Have you evaluated the pieces of legislation that have been offered to either correct or ameliorate the notch problem?

Mr. **Delfico**. We looked at the cost of legislative proposals that have been offered. We looked at the costs of three or four of the major pieces of legislation and analyzed the ways they would reduce the benefit differences.

Mr. **Archer**. Is there any one of them that would totally eliminate the so-called inequity between age groups.

Mr. **Delfico**. I don't think there would be any way you could eliminate the total inequity between the prenotch——

Mr. **Archer**. So we would still end up with some type of a notch, as it were——

Mr. **Delfico**. That's correct.

Mr. **Archer** [continuing]. If any of these pieces of legislation were adopted?

Mr. **Delfico**. That's correct.

Mr. **Archer**. If we were to go back to the benefits structure that was created in 1972, which would be the only way to eliminate the so-called notch, would we not see many retirees in the future getting annual benefits in excess of what their last year's annual wage rate was?

Mr. **Delfico**. That's the result of our calculations. They show that in certain instances retirees would be getting over 100 percent replacement rates.

Mr. **Archer**. Can you explain to us how you arrived at the 42 percent replacement rate, because I'm sure that some of the witnesses are going to question that.

Mr. **Delfico**. This was the decision of the Congress as it decided in 1977 to stabilize replacement rates. Our analysis of the record shows that there were a number of ideas proposed at that time. Forty-two percent was the replacement rate, as you can see by the chart, that was experienced around the 1974–75 period. In general, for age 65 retirees, who were average earners, it was considered a target for the new wage formula.

Mr. Archer. Would you comment on the accuracy of a February 16, 1988, press release from the National Committee to Preserve Social Security and Medicare, that states: "The notch has caused benefit levels for affected seniors to fall below the benefit levels of most seniors born since 1900."

Mr. Delfico. I think, if I remember that particular piece——

Mr. Archer. Is that accurate?

Mr. Delfico. I don't think it's accurate. We have looked at benefits for people born in 1900 and I think, as you will notice by the replacement rate chart we have up here, which is an accurate reflection of benefit levels, that statement is not accurate.

Mr. Archer. The 1987 trustee's report under alternative 2(b) projects that the trust funds will be exhausted by the year 2055. Can you project how much sooner that trust fund would be exhausted if we enacted a bill like H.R. 3788?

Mr. Delfico. I don't think we have done that calculation, but that trust fund would probably be exhausted—I'm guessing now—in something like 3 to 5 years earlier, in that timeframe.

Mr. Archer. I thank you very much.

Mr. Delfico. It's pretty close.

Chairman Jacobs. Mr. Levin.

Mr. Levin. Thank you.

Let me ask you a few questions about the impact of inflation, because that clearly entered into the picture. You say on page 2 of your testimony—in the first paragraph at the end that:

> In combination with the old, flawed formula, the rapid inflation occurring in the late 1970s and early 1980s caused the benefits of the pre-notch group to rise even faster than had been expected, and thus made the gap between old law and new law benefits even greater.

Now, I think elsewhere in your testimony you say that that was true mainly for those who retired at 65 and not at 62; is that correct?

Mr. Delfico. Yes, I think——

Mr. Levin. Can you tell us roughly how many of the notch group retired at 62 or before 65, just roughly?

Mr. Delfico. I think about 48 percent of the people retire at age 62.

Mr. Levin. So it's about 50-50, just to even it off, that for 50 percent the differential is much smaller for those who retired earlier?

Mr. Delfico. That's correct.

Mr. Levin. So if we're talking about the differential, we should really focus on those who retired at 65?

Mr. Delfico. Well, I think it would be more of an average closer to 62 if you wanted to weight it. People are retiring between 62 and 65. Since most people start retiring right at 62, the age of most prevalent retirement being age 62, I think the average should be weighted toward the 62 more than the 65.

Mr. Levin. When you say the average weighted, you mean what?

Mr. Delfico. I would say the average age of a retiree, if you wanted to put it that way, is probably less than 65 and more than 62.

Mr. Levin. But the impact is much more significant for those who retired 65 and later, right?

Mr. Delfico. That's correct, yes.

Mr. Levin. So then let's go to the statement on page 3—and again, we're focusing on the inflation factor. You say in the middle paragraph that begins "In deciding * * *. Thus, while those in the transition may be worse off relative to those born immediately preceding them, in many instances they gained relative to the current workers who now contribute to pay their benefits."

You seem to be saying there—and I want to ask you about what "many instances" means—that while those who retired earlier gained more from the unexpected inflation, the unexpectedly high rate of inflation, that many in the notch group also benefited from the rate of inflation relative to those who are current workers. You say "in many instances".

Mr. Delfico. Yes.

Mr. Levin. And here we're dealing with issues of equity, so I need to ask you what you mean by "in many instances". Give us somNdea of what the numbers are.

Mr. Delfico. As you see by the chart we have, in the transition period, the majority of the people in the notch transition period received benefits because of the transition rules that were higher than the average 42 percent replacement rate.

Mr. Levin. Again, these are averages.

Mr. Delfico. Right.

Mr. Levin. Do you have any data readily available that would give us some clue as to what proportions we're talking about? Would most of those who retired after 65, for whom the gap is greater, have a higher replacement rate than those coming later on?

Mr. Delfico. Most people retiring after 65 would have a higher replacement rate if they retired in the first three years or so after the law was changed than those coming later on.

Mr. Levin. So I think that leads to your comment on the option that in terms of the equities that might lead you to conclude that one solution would be to take away the windfall.

Mr. Delfico. That's one solution that we did discuss, but that was rejected in 1977.

Mr. Levin. Congress just decided it did not want to do that?

Mr. Delfico. Right.

Mr. Levin. Now let me just ask you about who would benefit from any change. We're now on page 3. The third paragraph from the bottom, it says "The pattern of the notch disparity and the data on income and assets we examined suggest that notch legislation will tend to benefit those on average who have higher retirement income and greater asset holdings."

Just tell us a bit more. That's a somewhat cautious statement. I don't know what's behind it. Is it pretty clear? Is it just kind of a vague pattern? What do the data show on that?

Mr. Delfico. The data show that people who retired later in their working careers, those who retired at 65, for example, have a greater disparity in benefits compared to those retiring prenotch, and those retiring at 62. They would tend to recover more from notch legislation than those who retired right after the notch legislation was enacted.

Mr. Levin. Just as we finish my questions, what is "tend to"? Are we talking about the large bulk of people?

Mr. Delfico. Yes, we are. They are a large bulk of people.

Mr. Levin. Does that mean three-quarters, more or less?

Mr. Delfico. Three-quarters, more or less, I think is a good estimate.

Mr. Levin. Thank you.

Chairman Jacobs. Mr. Moody will inquire.

Mr. Moody. Can you elaborate on the following point: You mention in your statement that rampant inflation has been a large part of the problem.

Mr. Delfico. Yes.

Mr. Moody. And the inflation had kind of a double effect, of course. It cost more because of the COLAs on the benefits, but it also indexed up the wage base.

Mr. Delfico. Yes.

Mr. Moody. If you were to take the latter, the wage base inflation factor out of the calculations—and, of course, the Congress, when it made those earlier decisions, did not know that it was going to be facing a hyper-inflationary period behind that decision—but if you took out inflation, what would that roughly do to the chart or to these calculations?

I assume it would soften the whole problem.

Mr. Delfico. It would. It wouldn't be as pronounced if you took inflation out of the calculations.

But inflation had a double effect, as you pointed out. It did increase the wage base and it also was a factor in the prenotch formula. It is not that way today. It has been decoupled from today's formula.

So the only increase that you would have as a worker today, the only increase you would see are increases in your wage base and any component of inflation would be included in that.

Mr. Moody. Right.

Have you done a calculation to find out what would it look like without hyperinflation? Let's say if we had a routine 4 percent inflation instead of the double digit inflation we had for a while, what would that have done?

Mr. Delfico. We haven't done that calculation, Mr. Moody. As I mentioned earlier, it probably would have not been as pronounced, that is, the increase in replacement rates would not have been as pronounced.

Mr. Moody. I don't know how hard it would be, but if you had—and if it's not hard, I would appreciate seeing some rough calculations.

The reason I raise that, Mr. Chairman, is that it is often cited here that Congress knew what it was doing when it declined to make the corrections at the time. But the Congress did not then know what kind of inflation we were in for, that was coming up, and it put us in a much deeper hole financially, and drove up the costs far more than Congress would have ever dreamt when it made that decision. Which is to say that maybe Congress should revisit the options it chose not to exercise before because, in fact, there was tremendous inflation during this whole buildup period.

Do you have any comment on that?

Mr. Delfico. That choice, obviously, is yours, on whether you want to revisit that or not. I don't think there's any direct control you have over inflation. If you initiated new legislation today, you would face the same problem and you would have inflation as a component to contend with.

Mr. Bombara would like to comment on that, also.

Mr. Bombara. Yes. It is important to point out that inflation affected the formulas differently. Inflation had a much larger effect on benefits under the old law because it drove up people's wages before retirement and thus had a bigger impact on their benefit.

Under the new law, that formula substantially mitigated the effect of inflation. But since inflation drives up wages, people still benefited from inflation under the new law. But the point is, when you consider inflation, it drove up benefits under the old law much greater than it did under the new law, and that widened the gap somewhat between their benefits.

Mr. Moody. Can you quantify "somewhat"?

Mr. Bombara. Well, inflation doesn't account for the whole notch difference.

Mr. Moody. Is two-thirds of the notch difference inflation? Can you give me a rough sense of that?

Mr. Bombara. It does vary by retirement age. The effect of inflation on notch difference is rather small for those retiring at age 62.

Mr. Moody. So it's small for them.

Mr. Bombara. The impact of inflation on that notch difference is small for those at age 62, but it does get greater as people retire at age 65 and then beyond. So probably for an age 65 retiree, I would say that inflation added about another 20 percent on the notch disparity.

Mr. Moody. So about a fifth of what has happened is——

Mr. Bombara. It might be greater for those retiring after age 65.

[The information requested by Mr. Moody follows:]

BENEFIT DIFFERENCES ANTICIPATED BASED ON 1977 ECONOMIC ASSUMPTIONS COMPARED TO BENEFIT DIFFERENCES BASED ON ACTUAL EXPERIENCE

Year of retirement	Age at retirement	Anticipated initial benefits based on 1977 trustees report [1]			Initial benefit based on actual experience			Percentage difference between column (6) and column (3)
		Worker born in 1916	Worker born in 1917	Difference compared to worker born 1916	Worker born in 1916	Worker born in 1917	Difference compared to worker born 1917	
		(1)	(2)	(3)	(4)	(5)	(6)	
1979	62	$312	$306	-$6	$313	$306	-$7	16.7
1980	63	369	348	-21	389	365	-24	14.3
1981	64	438	394	-44	500	449	-51	15.9
1982	65	511	440	-71	623	535	-88	23.9

[1] Based on intermedia.

Source: Social Security Administration.

Mr. Moody. Could either one of you or the three of you comment on the intergenerational issues that were raised by Mr. Archer in his opening statement? Is it correct to say that there are heavy intergenerational equity issues here?

Mr. Delfico. I think it's fair to say that there is. Any notch legislation is going to have to be paid for one way or another by today's worker.

I think today's workers, as we pointed out in our testimony, are paying higher payroll taxes than the workers previous to them because of the changes in the 1983 legislation and because of these changes today's workers are pretty highly burdened with payroll taxes.

So I would say, as far as equity is concerned, that is probably, in my view, one of the most important equity issues to deal with.

Mr. MOODY. Have you calculated what the payroll tax would have to be to solve the notch under some of the alternatives proposed? It's 7.51 percent of payroll right now on the employer, and 7.51 on the employee. Suppose we adopted, let's say, the Roybal option or some other option; what would it have to be?

Mr. DELFICO. I think Mr. Bombara has looked at those calculations.

Mr. BOMBARA. Okay. Under the Roybal bill, when you talk about percent of taxable payroll, the Roybal bill would add about 0.07.

Mr. MOODY. So the new wage withholding would have to go to 7.58?

Mr. BOMBARA. Yes. And I think under the Sanford-Ford bill, it would be about 0.08.

Mr. MOODY. So it would be 7.59 under the Sanford-Ford approach?

Mr. BOMBARA. Right. And under the Daub bill, it would be about 0.02, I believe.

Mr. MOODY. So under the Daub bill the withholding for an employee would be 7.53, is that correct?

I think it's important, Mr. Chairman, to have that in the record if we're going to discuss remedies. We have to know what the burden will be.

Thank you very much. I appreciate your report.

Chairman JACOBS. I believe I heard one of the witnesses use the phrase a moment ago that somebody benefited under inflation more than others benefited under inflation. I think the perception ought to be set straight here.

No one is supposed to benefit under inflation. The idea of the 1972 act was to make sure that the purchasing power of the Social Security benefit remained static, even though there might be variations in the currency of the republic. You will find that discussed as early as our own constitutional convention, if you will look it up under the Elliott's debates. There was considerable discussion that public officials of the U.S. Government would be compensated in grain because the grain was a commodity that would have a static value, regardless of the variations in currency.

The purpose of the 1972 act was to make certain that 10 and 20 and 30 years later Social Security retirees could buy the same number of beans with their benefits that they could in the year 1972. If the cost-of-living adjustment fell below actual inflation, the retiree would be penalized because the retiree would not be able to buy as many beans. If the adjustment exceeded the cost of living determined by the Consumer Price Index, then the retiree would, indeed, benefit—that is to say, have more of the number of beans that were intended.

My question to the GAO is, is it true that during the decade of the seventies, the purchasing power of the Social Security benefit, rather than staying even, exceeded actual inflation by about 30 percent, and is it equally true that the purchasing power of those still paying the Social Security tax fell somewhere above 20 percent during the same period?

Mr. DELFICO. I'm not sure about the numbers, but I think the comparison is correct, yes. The workers didn't benefit from the COLAs that—if I misuse the term again, please excuse me—that the Social Security retirees received. So those numbers sound like they're in the ballpark.

Chairman JACOBS. So the folks who were still paying were going down in their purchasing power, and the folks who retired during that period of time under Social Security were going up in the purchasing power, and it was never intended that the Social Security retirees would go up or down but stay the same in purchasing power; is that correct?

Mr. DELFICO. That's correct.

Chairman JACOBS. I thank the panel for its contribution.

Our next witness, I believe, is the Honorable J.J. Pickle.

Mr. DELFICO. Thank you, Mr. Chairman.

Chairman JACOBS. The former chairman of the Social Security Subcommittee, the Honorable J.J. Pickle of Texas, former representative of Lyndon B. Johnson, you are welcome to the committee. You have been through a lot.

STATEMENT OF HON. J.J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PICKLE. Mr. Chairman, I am glad to be here with you and the members of this committee and to compliment you on the job that you are doing, along with Mr. Archer and Mr. Crane, and the group of us who were on the committee back in 1983 when we passed this historic legislation.

Now, Mr. Chairman, I am going to ask consent to summarize my remarks. I have about 7 minutes of testimony and then I will respond to questions.

Chairman JACOBS. Without objection.

Mr. PICKLE. As the former chairman of the Subcommittee on Social Security, I continue to be disturbed by the misinformation being spread amongst the public concerning the Social Security notch. I therefore commend the members of this committee for holding the hearing to clarify the record, and I commend the GAO for their very thorough and scholarly analysis of this problem.

In my remarks today, I will not try to cover the technical aspects of the notch issue, although I will make some reference to it. The GAO does a good job in this respect. Instead, I want to discuss the broad policy choices. I would say, however, at the very beginning, I am opposed to any notch legislation.

Historically, Social Security benefit increases were passed by the Congress on an ad hoc basis. The results of this process were very uneven, and beneficiaries were uncertain and fearful about the effect of inflation on their retirement security.

In 1972, for the first time ever, Congress enacted legislation giving Social Security beneficiaries an automatic cost-of-living adjustment, the COLA, to protect them against inflation. Unfortunately, and I might even say tragically, the formula used was faulty. It vastly overcompensated people for inflation. As a result, by 1975, the system was paying new beneficiaries far higher levels of benefits than it had ever paid anyone else. Furthermore, the Social Security trustees estimated that unless corrective action was taken, the system would be bankrupt or could be bankrupt by 1983. So Congress had to act, and had to act quickly. The COLA was not the sole problem, but it was certainly one of them.

Therefore, Congress had two choices: either to increase taxes or to lower benefits. In 1977 it did some of both. For those already eligible to receive benefits, no change was made. This meant that recently entitled workers were allowed to continue receiving the windfall benefit created by the faulty formula adopted in 1972. And that is a fact. All future beneficiaries would be paid in accordance with a new benefit formula which was properly indexed for inflation. This new formula set benefit levels at close to, but slightly higher than, historic levels. Finally, to ease the transition from one formula to another for people close to retirement, a special transition formula was authorized, creating the so-called notch. People born in those years were allowed to compute their benefits under either the new formula or the special transition formula, whichever resulted in a higher benefit. That was certainly a generous and a fair choice. This choice was to protect those who were near retirement from a sudden change in benefits.

In 1977, to pay for the higher benefit levels granted to both past and future retirees, including the notch retirees, Social Security taxes were raised for everyone. At that time it was the largest tax increase that this Nation has ever known in our peacetime history.

In retrospect, both the "new benefit formula" and the "transition benefit formula" adopted in 1977 have had the exact effect intended by Congress. The "new benefit formula" has stabilized benefit replacement rates at the levels Congress intended. I might say the replacement level now is around 42 percent. That is what we intended. It had already gone, Mr. Chairman, to around 55 percent. It could have gone to 100 percent, and you could see that that would be absolutely unworkable.

But the new formula does protect beneficiaries from inflation. It has, in combination with the Social Security Amendments of 1983, restored the system to a minimal level of financial solvency. The "transition guarantee formula" reinstated, in an orderly and rapid manner, the benefit replacement rates intended by Congress, and it minimized the financial threat to the trust funds.

So why are the notch beneficiaries complaining? They are unhappy because their benefits do not increase as rapidly as those covered under the faulty 1972 formula. These differences are larger than projected because people who are covered under the old formula continue to be overcompensated for inflation. They continue to get a windfall, and, the fact is that, since inflation has been higher than projected in 1977, their windfall is bigger than projected.

So you should remember that the faulty benefit formula was originally adopted to protect those beneficiaries from inflation, and it was retained to avoid changing benefits for those already eligible to retire. In both cases, Congress was acting to protect beneficiaries. And yet people are being told now that Congress acted in a discriminatory fashion to penalize people born during the notch years. Nothing, Mr. Chairman, could be further from the truth.

In spite of the fact that the notch beneficiaries are getting a better deal than almost all other beneficiaries, some people feel that the discrepancy in benefit levels is too great. To make the benefit levels more equal, they argue that the special transition formula should be made more generous. Well, to pay notch year beneficiaries at a level comparable to what they would have gotten under the old formula would cost in excess of $243 billion over the next 7 years.

So, to avoid this tremendous cost, and, I suppose, on the theory that half a loaf is better than none, bills have been introduced that range in cost from $24 billion to $86 billion over the next 8 years. But the bottom line is that all these bills would significantly reduce the current trust fund reserves, seriously jeopardize their short-term solvency, and bankrupt them over the long term.

The only currently affordable means of making everyone's benefits completely equitable would be to retroactively reduce the benefits for workers who got a windfall under the faulty 1972 formula. This was considered too harsh and unworkable in 1977. I do not think the passage of a decade has made it any more fair or reasonable.

So, in summary, Mr. Chairman, in 1977 Congress balanced the inequities between past and future retirees and current workers as fairly as possible. In 1983, neither the President's bipartisan panel nor the Congress saw any need for readjustment. Before deciding to change this balance, I urge you to consider carefully who will benefit and who will pay. I do not think that today's younger workers should be asked, or could they be expected to accept, another increase in their taxes in order to give people already getting a comparatively good deal an even better one.

Mr. Chairman, if you want to further disillusion the young workers of this country who already view Social Security with great suspicion, you pass this notch legislation and I think you seriously damage the future solvency of the system.

In short, under the legislation that we passed, nobody is being hurt. The notch year babies are not being hurt financially. They are just getting the replacement rate we intended. They are not getting as good a deal as those people who retired just ahead of them, and that is a fact.

If we had some good way to go and yank the windfall away from those who retired under the 1972 formula, I guess we could look at that. But there is no way to do that administratively. What we have done is fair, and it ought to be kept on the books and not changed.

I thank you, Mr. Chairman.

[The statement of Mr. Pickle follows:]

OPENING STATEMENT
THE HONORABLE J. J. PICKLE
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY

As former Chairman of the Subcommittee on Social Security, I continue to be disturbed by the misinformation being spread amongst the public concerning the Social Security "NOTCH". I therefore commend the Members of this Subcommittee for holding this hearing to clarify the record. I also commend the United States General Accounting Office for their very thorough and scholarly analysis of the complex subject.

In my remarks to you today, I will not try to cover the technical aspects of the "NOTCH" issue. The GAO does this in great detail. Instead I want to discuss the broad policy choices that have and continue to face Congress.

Historically, Social Security benefit increases were passed by the Congress on an ad hoc basis. The results of this process were very uneven, and beneficiaries were uncertain and fearful about the effect of inflation on their retirement/security.

In 1972, for the first time ever, Congress enacted legislation giving social security beneficiaries an automatic cost-of-living adjustment (COLA) to protect them from inflation. unfortunately, and I might even say tragically. The formula used was faulty. It vastly over-compensated people for inflation. As a result, by 1975, the system was paying new beneficiaries far higher levels of benefits than it had ever paid anyone else. Furthermore, the Social Security trustees estimated that, unless corrective action was taken, the system would be bankrupt by 1983. Congress had to act, and act quickly.

Congress had two choices, either to increase taxes or to lower benefits. In 1977 it did some of both. For those already eligible to receive benefits no change was made. This meant that recently entitled workers were allowed to continue receiving the windfall benefit created by the faulty formula adopted in 1972. All future beneficiaries would be paid in accordance with a new benefit formula which was properly indexed for inflation. This new formula set benefit levels at close to, but slightly higher than, historic levels. Finally, to ease the transition from one formula to another for people close to retirement, a special transition formula was authorized, creating the so-called "NOTCH". People born in these years were allowed to compute their benefits under either the new formula or the special transition formula, whichever resulted in a higher benefit. This choice was to protect those who were near retirement from a sudden change in benefits.

In 1977, to pay for the higher benefit levels granted to both past and future retirees (including the notch retirees) social security taxes were raised for everyone. At that time it was the largest tax increase in our peacetime history.

In retrospect, both the "new benefit formula" and the "transition benefit formula" adopted in 1977 have had exactly the effect intended by Congress. The "new benefit formula" has stabilized benefit replacement rates at the levels congress intended. It does protect beneficiaries from inflation. It has, in combination with the Social Security Amendments of 1983, restored the system to a minimal level of financial solvency. The "transition guarantee formula" reinstated, in an orderly and rapid manner, the benefit replacement rates intended by Congress. It minimized the financial threat to the trust funds. At the same time, it provided an equitable level of protection to workers nearing social security eligibility, particularly those workers judged to be most dependent on social security for their retirement income.

So, why are the "NOTCH" beneficiaries complaining? They are unhappy that their benfits do not increase as rapidly as those covered under the faulty 1972 formula. These differences are larger than projected because people who are covered under the old formula, continue to be overcompensated for inflation. They continue to get a windfall. And, since inflation has been higher than projected in 1977, their windfall is bigger than expected.

Remember the faulty benefit formula was originally adopted to protect these beneficiaries from inflation, and it was retained to avoid changing benefits for those already eligible to retire. In both cases Congress was acting to protect beneficiaries. And yet, people are being told now that congress acted in a discriminatory fashion to penalize people born during the notch years. Nothing could be further from the truth.

As I reflect on the controversy associated with the social security notch, I can't help but be reminded of the saying, "no good deed goes unpunished."

In spite of the fact that the "NOTCH" beneficiaries are getting a better deal than almost all other beneficiaries some people feel that the discrepancy in benefit levels is too great. To make the benefit levels more equal they argue that the special transitional formula should be made more generous. To pay notch year beneficiaries at a level comparable to what they would have gotten under the old formula would cost in excess of $243 billion over the next seven years, according to the Social Security Administration estimates.

To avoid this tremendous cost and, I suppose, on the theory that half a loaf is better than none, bills have been introduced that range in cost from $24 billion to $86 billion over the next eight years. But the bottom line is that all these bills would significantly reduce the current trust fund reserves, seriously jeopardize the short-term solvency of the system, and bankrupt it over the long-term. To avoid this catastrophe, further tax increases would have to be enacted.

The only currently affordable means of making everyone's benefit levels completely equitable would be to retroactively reduce the benefits for workers who got a windfall under the faulty 1972 formula. This was considered too harsh and unworkable in 1977. I do not think the passage of a decade has made it any more fair or reasonable.

In 1977, Congress balanced the equities between past and future retirees and current workers as fairly as possible. In 1983, neither the President's bipartisan panel nor the Congress saw any need for readjustment. Before deciding to change this balance, I urge you to consider carefully who will benefit and who will pay. I do not think that today's young workers should be asked, or could be expected to accept, another increase in their taxes in order to give people already getting a comparatively good deal an even better one.

Chairman JACOBS. Mr. Gibbons.

Mr. GIBBONS. I want to commend my colleague, Mr. Pickle, for an accurate and a brave statement. You are exactly correct, and I think you put your finger right on the problem.

Mr. PICKLE. I thank you.

Mr. GIBBONS. I agree with you 100 percent. I was sitting here with you when all this debate took place, and you have portrayed it exactly. The chart over there shows exactly what happened. We knew it was going to happen, and that is what has happened.

Mr. PICKLE. I thank you, Mr. Gibbons. And I thank you, Mr. Chairman.

Chairman JACOBS. Could you stand a question from a fellow Texan?

Mr. PICKLE. Mr. Archer, I believe.

Mr. ARCHER. I do not have a question.

Mr. PICKLE. Mr. Archer and I were on the committee at the same time.

Mr. ARCHER. I do not have a question, Mr. Chairman, but I was on the committee at the time and I think our colleague, Mr. Pickle, has accurately and appropriately stated the situation. I compliment you for your testimony.

Mr. PICKLE. Thank you, Mr. Archer.

Chairman JACOBS. Mr. Levin.

Mr. LEVIN. As always, it is a pleasure to hear your comments. As always, they are succinct.

We are here to hear all sides. So I will withhold any further comment except to urge that all who follow try to respond to your critique. You essentially have thrown down the gauntlet. It seems to me that there needs to be a response as succinct to your comments as you have made them.

I thank you for your testimony.

Mr. PICKLE. Mr. Levin, let me respond. I am not trying to throw down the gauntlet. I can understand why people would want more funds because they can see somebody just ahead of them got more money than they are getting. We had to make a change. We made the right kind of a change. It does us no good to go back and reinstitute a bad law that was a bad law to begin with. We simply made a correction, and we ought to just live with it because we have done the right thing.

Mr. LEVIN. I very much agree with your interpretation of my comment. You throw down the gauntlet not in terms of being in any way insensitive to the needs, quite the opposite, but in terms of framing the issue. You do so clearly, and I hope we will have the same clarity in responding to your comments.

Mr. PICKLE. Thank you.

Chairman JACOBS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. I, too, want to congratulate you, Jake, on your testimony. I, too, was on the Social Security Subcommittee at that time.

The thing that has impressed me about the operation of this subcommittee under your chairmanship and now under Andy's chairmanship is the bipartisan effort to deal with a very difficult question, which undoubtedly has polarized elements in our society.

But I think if there is a degree of statesmanship that was manifested, it was when you were chairman and it is today with Andy as chairman. I am just happy to have been associated with you in a straightforward effort to deal with a difficult problem.

Mr. PICKLE. Thank you, Mr. Crane. I want to also add Mr. Archer in because he was on that committee.

Mr. CRANE. Oh, yes.

Mr. PICKLE. And we did pass legislation, and it was a bipartisan approach. It served us well.

Mr. CRANE. Thank you, Jake.

And, Mr. Chairman, may I make a unanimous consent request to include a statement I had at the opening of the hearing. Unfortunately, I was delayed in my office.

Chairman JACOBS. Without objection, it is so ordered.

Mr. CRANE. Thank you.

Chairman JACOBS. Our next witness is the Honorable Harold Ford of Tennessee, member of the Ways and Means Committee, chairman of the Public Assistance Subcommittee. He is wearing a yellow tie.

STATEMENT OF HON. HAROLD FORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. FORD. Thank you very much, Mr. Chairman and members of the panel. Thank you very much for allowing me to testify before the committee today on behalf of millions of Americans who are affected by what is known as the notch.

Since I know that you have a very long line of witnesses, Mr. Chairman, who will be testifying today, I will try to be as brief as possible and ask my colleagues of the committee to indulge me just for a few minutes.

For many years, Mr. Chairman, this subcommittee as well as the full Committee on Ways and Means has agonized over this problem that is before you today. A fair resolution of the notch problem, however, has eluded us for almost 11 years. With the benefit of hindsight, we probably could have done a better job in 1977 or resolved the problem earlier. Given the pressures of resolving the Social Security financial crises in 1977 and 1983, I do believe we acted as best we could, given the knowledge we had at the time. Indeed, I am one of the nine members of the Ways and Means Committee who voted for the committee's bill and the conference report in 1977. But now is the time to resolve this problem for millions of Americans.

Mr. Chairman, with the release of the GAO report requested by your predecessor, Mr. Jones, I believe that we are on the threshold of resolving this problem that is before us today. As you are aware, there are currently four major bills before the subcommittee which propose solutions to the notch problem. One of the bills is H.R. 3788 which I introduced on December 17, 1987. If enacted, this bill would resolve the notch controversy by providing a more gradual transition from the 1972 Social Security benefit formula to the formula currently in use.

Mr. Chairman, the Ford bill is both equitable to notch babies and is affordable to the American public. It is a compromise bill. Grassroots notch activists support it even though it does not restore all of the benefits that they have lost. The bill would reduce the overall cost of the notch correction legislation and more effectively target benefit increases to low and moderate income beneficiaries. The National Committee to Preserve Social Security and Medicare supports this moderate position. Others who have expressed support for the legislation to correct the notch include the Gray Panthers, the Veterans of Foreign Wars, the Retired Teamsters, and over 200 Members of the House of Representatives who have cosponsored a notch bill.

In reviewing the GAO report, Mr. Chairman, I came across table 4.6 on page 68. I think to my right and your left you will see chart 1. It is based on the GAO chart with the addition of historical replacement rates back to the year 1970. The first column in the GAO table lists the "intended" replacement rates based on the 1977 amendments. Presumably, "intended" is in quotes because the GAO report does not cite any document used in 1977, but rather a 1978 article in the Social Security Bulletin. If we were to take this chart at face value, Mr. Chairman and members of this subcommittee, we would have to conclude that my colleagues and I voted to cut replacement rates 12 percent with no transition. And I agree with the former chairman of the subcommittee. There is just one question that still hangs out there. We all knew that we were voting on a 5 percent cut, and now we have witnessed cuts much larger, Mr. Chairman. I have here with me today the 1977 Ways and Means Committee hearing records and the congressional debate on the Social Security amendments. In reviewing the record, Mr. Chairman, I have found no references at all to anything more than a 5-percent cut; the line on the chart indicates a 5-percent cut. As I mentioned before, hindsight is 20/20, but I believe that our decision in 1977 would have been different if we had looked at this information that we are privy to in 1988.

We now know that the transition group suffered larger cuts than the 5 percent that was proposed back in 1972. Instead of the replacement rates leveling off at 47 percent, Mr. Chairman, they continued to rise to 54 percent for the average worker born in 1916 who retired at the age of 65. Then they fell 25 percent to an average of 41 percent, even lower than we intended. This chart, chart 2, which is on the right of me and the left of you, shows that actually what happened and what would happen if the Ford bill is passed to provide a gradual transition, as we actually intended for it to be.

Mr. Chairman, we are not here because replacement rates dropped drastically. Rather, we are here because of the large differences in benefit amounts between beneficiaries born before 1917 and beneficiaries born afterwards. In fact, it is possible for replacement rates to fall and benefit amounts to rise. Unfortunately, we know from the GAO report that this did not happen or I do not believe we would have had this controversy. We should not be surprised that benefit differences over $100 a month have upset our constituents. My constituents would be concerned, Mr. Chairman, about differences as small as $10 per month.

H.R. 3788 would put money back into the pockets of our constituents, especially those who have worked past the age of 62. In my district, senior citizens cannot afford to retire at the age of 62, and they should not be forced to accept greater reductions in benefits than those who do retire earlier.

It is unfortunate that the GAO report did not analyze and compare the impact of beneficiaries of any proposed legislation. But based on the Social Security estimates that I have, the Ford bill would restore some $50 a month for the average worker born between 1917 and 1928 who retired at the age of 65. Even with this restoration, these people would still be receiving $37 less a month than the similar worker born between 1915 and 1916.

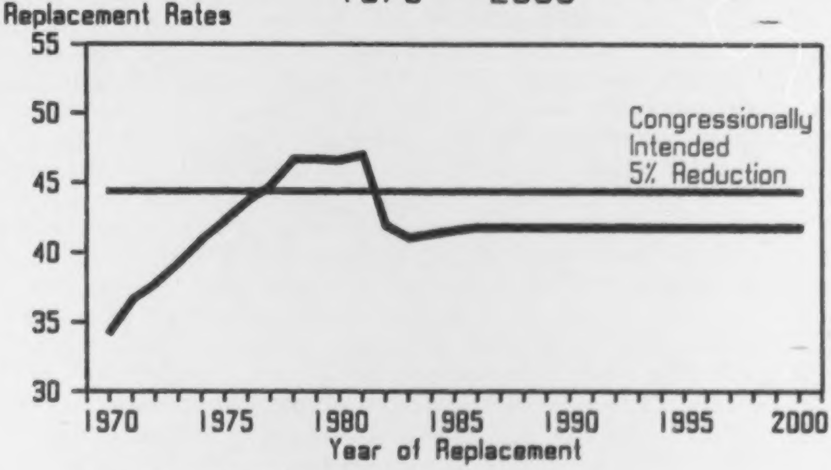
Finally, Mr. Chairman, H.R. 3788 is the only notch legislation which targets benefits to low and moderate income beneficiaries by limiting earnings used in the proposed transition formula and by limiting retroactive payments. These beneficiaries are less likely to have private pensions or savings to supplement their Social Security income. For instance, an average retired worker in Tennessee received benefits of only $472 in December 1987. For a widow, these benefits were even lower, averaging only $409 per month, well below the national average. These provisions as well as a provision limiting recomputations for beneficiaries born before 1917 make H.R. 3788 the most affordable, cost effective legislation proposal that eliminates the problems that the notch babies are faced with.

Any solution to this problem is not going to be easy. And I commend the members of this subcommittee, and I trust that each of you will certainly make the right decision and bring about an equitable solution to solve the problem that is before us today and say to the millions of Americans who are caught up as notch babies and who are caught up in losing benefits under the Social Security Administration will get the relief that will be needed in this Congress.

Thank you, Mr. Chairman.

[An attachment to the statement follows:]

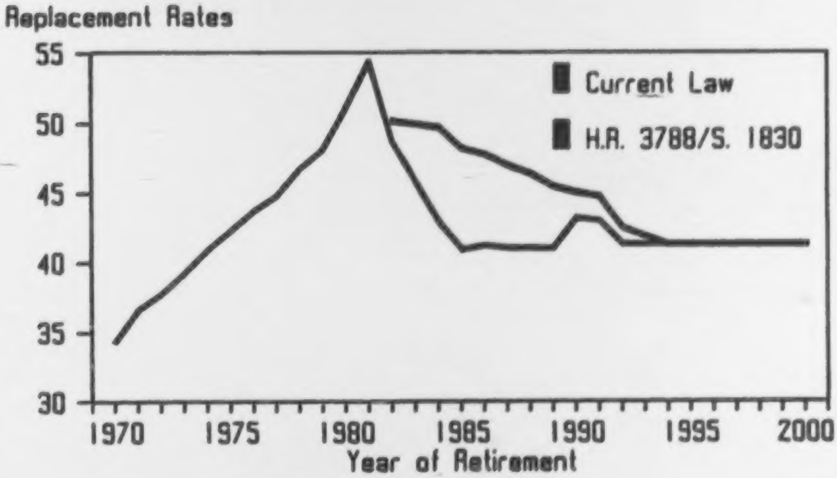
"Intended" Replacement Rates for an Average Worker Retiring at Age 65 Under the 1977 Social Security Amendments, 1970 - 2000



Source: GAO tables 4.5 and 4.6

CHART 1

Replacement Rates for an Average Worker at Age 65 Under Current Law and Under H.R. 3788/S. 1830, 1970 - 2000



Source: GAO report, table 4.5 for current law, SSA for H.R. 3788

CHART 2

Chairman **Jacobs**. Harold, when you speak of a cut of more than 5 percent, are you referring to a cut from the benefit level in 1972, the base year on which the formula was based? Or are you referring to a difference between——

Mr. **Ford**. Well, that is——

Chairman **Jacobs**. Excuse me. Let me finish the question.

The difference between what notch people are receiving and the erroneous amount that those between 1910 and 1917 are receiving?

Mr. **Ford**. 1917 and 1928.

Chairman **Jacobs**. Are you talking about the difference between what notch year people get and what the people immediately ahead of them get? Or are you talking about an actual cut from what was intended in 1972; namely, the benefit level in 1972?

Mr. **Ford**. Mr. Chairman, what was intended in 1972, if we can put Chart 1 back up.

Chairman **Jacobs**. Could you pick one first? Would it be a difference between the people immediately before, or would it be a cut from the benefit level in 1972?

Mr. **Ford**. Mr. Chairman, it would actually be the loss of dollars for the notch babies that the proposed 5 percent cut which was the intent of the 1972 act that we have seen anywhere from 9 to 12 percent, instead of the 5 percent cut that was proposed in 1972.

Chairman **Jacobs**. The only reason I ask is that the Social Security actuaries tell us that those retiring in 1986 and beyond are still receiving a slightly higher benefit than was received by beneficiaries in 1972 when the formula was put in place. So there still is a slight tilt in favor of the beneficiary and against the Social Security taxpayer even now.

Mr. **Ford**. Yes. Those who were born between 1917 and 1928, Mr. Chairman, that would retire, they would have to take an early retirement at the age of 62. Many of my constituents cannot walk out of the work force at the early age of 62.

Chairman **Jacobs**. I appreciate it, but you do understand my point?

Mr. **Ford**. Yes, I understand your point.

Chairman **Jacobs**. Even when the notch years are over, and in the early notch years, the early notch people definitely receive a higher benefit than the people at the end of the notch where it levels off. But even when it levels off, it is at a slightly higher benefit than was the case in 1972. It is about 3 percent, my colleague from Florida tells me. I think that ought to be understood.

So you are not really talking about a cut. You are talking about a difference, or at least you are not talking about a cut from what was intended; namely, to remain constant.

I might add for the record, according to my colleague from Texas, Mr. Archer, that between 1968 and 1973, before the automatic cost-of-living formula was enacted, cumulative inflation had been about 20 percent. And the increase in Social Security benefits had been 70 percent. I think that ought to be on the record.

Mr. Gibbons will inquire.

Mr. **Gibbons**. No questions.

Chairman **Jacobs**. Mr. Archer will inquire.

Mr. **Archer**. Just very quickly, Harold. I thank you for your effort to try to create equity. That is what we all want to try to do.

Would your bill, if enacted, eliminate another Dear Abby story that there is a difference between people who are born in different years as to the benefits that they get?

Mr. **Ford**. Bill, I did not hear the question.

Mr. **Archer**. If your bill is enacted, will it eliminate the reason that the Dear Abby column was written that there is a difference between benefits received by people who were born in different years?

Mr. **Ford**. There will still be somewhat of a difference.

Mr. **Archer**. There will still be a notch, right?

Mr. **Ford**. There will still be a notch. Like I said earlier——

Mr. **Archer**. Okay. Thank you very much.

Mr. **Ford** [continuing]. The bill would overall——

Mr. **Archer**. So if your bill is adopted, we will be back again when the next Dear Abby column is written saying that there is still an inequity in the code?

Mr. **Ford**. Bill, I think this is a good compromise bill. I think the bill that we are talking about will, in fact, restore some of the benefits, and hopefully it will be the compromise that will be needed because we have been talking about the fiscal restraints and the dollars, where we would find the dollars or whether we would have to increase the Social Security payroll taxes. I am not sure that we would have to do it. We are, in fact, faced with a surplus of about $36 billion in the current fiscal year. And as we approach the 21st century, we know that that surplus would even be greater.

Thinking in terms of what dollar amount it will take to correct this problem and not correct it fully, but at the same time there will still be a notch, I think the compromise will say to the recipients and those that were born between the years of 1917 and 1928 that we would have come very close in satisfying the recipients who would be eligible for these benefits.

Mr. **Archer**. Where do you suggest that we find the $100 billion shortfall if your bill is adopted between its initiation and 1996? Under the constraints of Gramm-Rudman, that will exacerbate the Nation's deficits in the way that we tabulate deficits—and I am not sure I agree with that. Nevertheless, that is the way it works.

Where are we going to find that money? Does your bill make a provision as to how we accommodate the constraints of Gramm-Rudman?

Mr. **Ford**. You know, we are talking about the dollars that it will take, Mr. Archer, to finance the program. We know that, you know, $36 billion has not gone into the trust; it has gone into the general revenue in the current fiscal year. And we are talking a surplus of about $1.2 trillion as we approach the 21st century.

We would be talking about less than 5 percent of those dollars in order to fund the program.

Mr. **Archer**. If I may, the GAO in their testimony just said that your bill would cost $100 billion to the fund between its inception and the year 1996, without trying to go beyond that. It balloons up beyond that.

Just between date of enactment or date of effectuation and 1996, there is a $100 billion shortfall. Now, that is going to fly in the constraints of Gramm-Rudman. It is also going to reduce the Social Security fund and the stability of that fund.

Now, what do you present to us today to raise that $100 billion, which, to me, is not a small amount of money?

Mr. FORD. Well, I guess under the current procedures that we are working under, the Social Security Administration will go broke, what, in the year 2052. If this is enacted, this would only say that the Social Security trust will go broke probably 3 years earlier.

So I think that we would have ample time, Mr. Archer, to work out, I guess——

Mr. ARCHER. No, I am not talking about after the year 2000. We did have testimony about that. I am talking about the near term between now and 1996, which is a loss of $100 billion——

Mr. FORD. There is a surplus——

Mr. ARCHER [continuing]. To the fund and a shortage of $100 billion to the Federal deficits under the tabulation prescribed by Gramm-Rudman.

That money has got to be found somewhere to meet the constraints of Gramm-Rudman. How do you provide that money between now and the year 1996?

Mr. FORD. Well, between now and 1996, I am not sure if it is $100 billion.

Mr. ARCHER. Well, that was the testimony that the GAO just gave us.

Mr. FORD. We have seen figures that over the 8-year period it will cost about $50 billion. I think when we look at the $36 billion surplus today, Mr. Archer, and the surpluses that are going into the general fund to help balance the Gramm-Rudman——

Mr. ARCHER. That does not count, though, Mr. Ford, on the Gramm-Rudman and the national deficit structure. It does not count. And GAO did testify that it was $67 billion and when compounded with interest produced a $100 billion shortfall. That is going to come right into the Federal deficit the way our accounting system currently grades it.

Mr. FORD. We all recognize there is a real problem with the notch babies born between the years 1917 and 1928. How we correct that problem, Mr. Archer, is going to take the minds of both Democrats and Republicans in this Congress to try to come up with solutions. I know that we are working under severe budget restraints, and I, too, join with you and others in this Congress to put those deficits away.

But I do not think that we are here talking about a deficit problem today. We are talking about a notch problem that is impacting millions of seniors in this country, and I think that we ought to try to correct this problem.

Mr. ARCHER. Thank you very much.

Chairman JACOBS. Mr. Levin?

Mr. LEVIN. Thank you. In deference to the many colleagues who are waiting, as well as others, maybe I will withhold questions with thanks to Mr. Ford.

Mr. FORD. Mr. Chairman, thank you and members of the committee.

Chairman JACOBS. You have enriched the record.

I note that our colleague, Mr. Roybal, is not in the room. I should say for the record that he is conducting a hearing in his own committee at present.

So we will call the first panel: Mr. Bevill of Alabama; Mr. Alexander of Arkansas; Mr. Gilman of New York, and Mr. Rinaldo of New Jersey.

I suppose we will proceed in that order. I know you will all be at least as concise as our colleagues in the other body.

Tom, why don't you start off?

STATEMENT OF HON. TOM BEVILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. **Bevill**. Mr. Chairman, thank you. I am delighted to have the opportunity to appear before this distinguished panel, and I want to commend this panel for solving one of the most serious——

Chairman **Jacobs**. Tom, would you suspend just a minute? I want to express my personal gratitude to the audience for their courtesy. There is no discourtesy now, but there are people leaving. Let us just wait a second so everybody can hear what you have to say.

[Pause.]

Chairman **Jacobs**. I think we are all right now. Go ahead, Tom.

Mr. **Bevill**. Thank you, Mr. Chairman. I was saying I am delighted to have the opportunity to appear before this distinguished panel, and I commend you for holding these hearings on the General Accounting Office study on the Social Security notch issue. I feel good about this already because I know this panel is going to come up with an equitable solution to this.

I have just held three meetings with senior citizens in my district last week, and several hundred people were there. The notch problem was, of course, the main subject of conversation. We know that the notch payment discrepancy occurred as a result of correcting the 1972 error in 1977. It did lessen the blow and had good intentions. But, of course, we also realize, as Congressman Jake Pickle, I think, has made very clear, we have to be concerned about the solvency of the Social Security fund.

I do not know of anything that has had more misinformation put out on it and has created a very real problem of communication with us. Because there has been so much misinformation going out, as you know, the people in the notch years are convinced that they have been short-changed. Actually they are, ironically, drawing more than was intended by Congress from the very beginning.

It is hard to make this point and hard to put this across. So I am hopeful that this panel will look into this and see what may be done. Of course, if it can be stretched out over more years than 5 and still keep the fund in good condition and not bankrupt the Social Security fund, then, I would like to see it done.

But at the same time, I think it is much more important that we keep the Social Security fund solvent than to try to spend money, in effect, to fight the misleading information that has gone out. Maybe we can even do a little more of what you were doing when you corrected the problem in 1977. Maybe instead of 5 years, we could stretch it out 6, 7, 8, or 10. But I understand that does get into several billion dollars. So this is something that this panel is going to have to weigh.

I would just like to see an equitable solution to this, and I feel that it could not be in better hands and that you are going to come up with an equitable solution. I am certainly going to be supporting this panel. I am holding hearings now, and if I may be excused, Mr. Chairman, I will be glad to yield to any questions, if that is in order. I would like to go back to my committee as soon as it is possible.

Chairman **Jacobs**. You may be excused now.

Mr. **Bevill**. Thank you very much.

I would like to have my prepared statement made a part of the record.

[The statement of Mr. Bevill follows:]

SUBCOMMITTEE ON SOCIAL SECURITY

HEARING ON THE REPORT OF THE GAO ON THE NOTCH ISSUE

APRIL 14, 1988

TESTIMONY OF HON. TOM BEVILL OF ALABAMA

Mr. Chairman, today I join with many of my colleagues to express my continuing concern for the Social Security "notch" provision. This issue has generated enormous interest and confusion among Social Security retirees.

Like many of my colleagues, I have received hundreds of letters on the notch issue. At my town meetings, there are countless questions relating to notch legislation. Often I am asked how Congress could let this happen to Social Security retirees, who have worked so hard all their lives and contributed to the great wealth of this country.

As we know, the real error was made in 1972, when changes were made to the Social Security benefit formula. The 1972 formula contained excessive cost-of-living increases and overcompensated for inflation. As a result, recipients began receiving more in benefits than was intended by Congress. As benefit levels climbed, it became clear that Congress had to act or risk threatening the solvency of the Social Security trust funds.

In 1977, Congress moved to correct the error in the faulty 1972 benefit formula. The law passed in 1977 applies to all beneficiaries born after 1916. Congress desired to gradually phase-in these new benefit levels and therefore created the transition benefit for those born between 1917 and 1921. As you know, "notch babies" generally receive less than those born before 1917, but more than those born after 1921. Unfortunately, the transition formula did not provide the gradual change in benefits intended by Congress.

I have consistently supported legislation to help correct the notch inequity. The 1977 Amendments were designed to help stabilize benefits- not create major disparities in benefit levels. It is my primary concern that the Social Security benefit formula be fair and equitable to our Social Security retirees.

Certainly, all of us are concerned with the short-term and long-term fiscal stability of the Social Security trust funds. Any proposed modifications in the formula or retroactive benefits must be examined closely to insure that they do not jeopardize the solvency of the Social Security system. However, I believe some type of increased benefit adjustment is in order. No one wants to deplete the Social Security trust funds, but Social Security retirees want and deserve the benefits they have earned.

I am very pleased that this panel is holding a hearing on the newly-released GAO report to help clarify the notch issue, especially since there has been misleading information published creating concern among our Senior Citizens. We need to let them know how the notch problem was created, what legislative remedies are available, and at what cost.

We, in Congress, need to resolve this issue on behalf of millions of American retirees. I pledge my support of your efforts, and I believe this hearing is a step toward finding a fair solution to the notch problem.

b b b

Chairman **Jacobs**. Let me make a general request from the committee and say without objection the formal statements of all witnesses will be included in the record without individual requests. Without objection, it is so ordered.

Mr. Alexander.

STATEMENT OF HON. BILL ALEXANDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. **Alexander**. Thank you very much, Mr. Chairman. I will summarize my remarks, but I would first like to say that being here this morning and hearing the witnesses before me has cleared some questions that I have had in my mind. The issue is one that is difficult to understand because of the misinformation that has been disseminated concerning it.

As I understand it, in 1972, Congress tied Social Security benefits to the cost-of-living index, and I was here and voted for that. We later learned that the Social Security fund could not afford it. So in 1977, we corrected the trend of payments by, in effect, adjusting the benefits to recipients. And in so adjusting the benefits in 1977, created a disparity for Social Security beneficiaries who were born between 1917 and 1921. That has created a great deal of misunderstanding, and it has ~~also~~ created an inequity.

Beneficiaries born during the years of 1917 to 1921, the notch years that they have come to be known, receive in some cases as much as $1,000 a year less than their contemporaries which became eligible before 1917.

I would join with this committee to try to correct this inequity. Obviously, you have to do so by increasing the fund or by decreasing the benefits. I do not know what the committee will do, but I certainly do not envy you your job. It is a difficult one. I share in that difficulty, and I will join the effort.

[The statement of Mr. Alexander follows:]

TESTIMONY OF HON. BILL ALEXANDER BEFORE THE WAYS AND MEANS SUBCOMMITTEE ON SOCIAL SECURITY U. S. HOUSE OF REPRESENTATIVES

April 14, 1988

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to testify on the Social Security "notch" years issue.

This is an issue of extreme importance to millions of Social Security beneficiaries nationwide. Some estimates indicate that up to 25,000 retired workers are affected in Arkansas' First District, which I represent.

In 1972, Congress amended the Social Security law to tie increases in payments to beneficiaries to changes in the cost of living index. Then, in the mid-1970s, Congress learned that the cost-of-living payment increase formula was flawed in a way that gave too much weight to changes in inflation rates.

This was true for both the working years and the retirement years of beneficiaries. At the same time, Congress learned that if the payment computation formula was not changed, the Social Security trust fund would go bankrupt.

So, in 1977, Congress made a change in the formula. Inflation rates in later years caused an unforeseeable disparity between benefits received by persons born before 1917 and persons born during the 1917 and 1921 transition years. The so-called "notch" years.

The formula change fully affected persons born after 1921. But, the Congress believed that persons born during the 1917 and 1921 period would not have sufficient time to prepare for the full force of the new, 1977 formula. So, Congress wrote a transition formula in the belief that the difference would be slight between the benefits they received and the payments received by persons born before 1917.

Unfortunately, the inflation rates in the years immediately following 1977 have resulted in a major difference -- in many instances -- between payments to beneficiaries who were born prior to 1917 and those born in the 1917-1921 period and who for the same pay and for the same periods of time.

Mr. Chairman, some experts will argue that the adverse effects of the Social Security "notch" simply don't exist. They argue that there may even be higher benefits for persons in this category.

There are statistics and tables and charts and interpretations to back almost every point of view on this controversial subject.

But, the best indicator to me of the notch injustice is the testimony I hear and read from residents of Arkansas' First District.

Nearly every day, First District residents contact me about the "notch" years. They want to know why they receive, in some cases, as much as $1,000 less per year than other Social Security beneficiaries who may have been born a few weeks, days, or sometimes, mere hours earlier.

Mr. Chairman, these people are hard-working citizens. They are asking for what's rightfully theirs: a fair and equitable Social Security benefit computation formula.

Most of the people who have contacted me have worked nearly all of their lives. Many continue to work, out of necessity, during their so-called retirement years.

They tell me they had planned for retirement with the promise of payments from the Social Security trust fund that they had helped contribute to.

Like all retired workers, Social Security was an investment in the future for persons born from 1917 to 1921. But, unless Congress reforms the current benefits computation formula, there will be no end to the disparity.

Mr. Chairman, our senior citizens are running out of patience -- and rightfully so.

They are running out of patience with a system that was designed to protect them in their retirement years and reward them with continued pay for a life of hard work and contributions.

But, more important, they are running out of patience with their elected representatives, who can and should correct this inequity.

I am a co-sponsor of H. R. 1917, the Social Security Transitional Benefit Computation Act.

This bill would gradually phase in the benefits computation changes that were enacted by the 1977 Social Security Amendments.

It would provide for increased benefits for persons born during the "notch" years of 1917 to 1921.

Mr. Chairman, I strongly support this bill. The "notch" injustice should neither be permitted nor tolerated any longer.

Chairman JACOBS. Thank you, Mr. Alexander.
Mr. Gilman.

STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. GILMAN. Thank you, Mr. Chairman. I want to join with my colleagues in expressing our thanks to the committee for taking up this issue so quickly after the GAO report of March 1988 had been issued, an extensive report which gives us all a sound background of this very complicated issue.

It is an issue that has evolved because of the attempt by Congress to reform the Social Security system in 1977. It has resulted in an inequity, an inequity that burdens, it has been estimated, some 10 million Social Security recipients across the country. It affects their benefits by as much as about $100 per month for the average recipient.

Because there is this inequity, and because Congress had something to do about creating it, I believe that Congress has the responsibility to resolve the problem. Two major measures have been introduced, as this committee is well aware: the Ford measure and the Roybal measure. I have cosponsored both of them. I believe that there is some room between both of those measures to try to work out an equitable resolution.

We all recognize our budgetary constraints, but at the same time, this impact upon our senior citizens came about as a result of congressional action. Accordingly, it is incumbent upon us and the responsibility rests upon our shoulders to correct this inequity. I am willing to join with the committee, and I know the committee will help point the way for the Congress in how best we can accomplish this result.

We look forward to working with this distinguished committee in accomplishing that result.

I thank the chairman, and I have submitted my full statement for the record.

[The statement of Mr. Gilman follows:]

STATEMENT OF REPRESENTATIVE BENJAMIN A. GILMAN, FROM THE TWENTY-SECOND DISTRICT OF NEW YORK, BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY OF THE COMMITTEE ON WAYS AND MEANS, REGARDING THE SOCIAL SECURITY "NOTCH" PROBLEM.

APRIL 14, 1988

Mr. Chairman, Members of the Committee, I would like to take this opportunity to commend you for holding today's hearings on the social security "notch" inequity. As an original co-sponsor of H.R. 1917, the Roybal bill, and as the first Republican co-sponsor of H.R. 3788, the Sanford-Ford measure, I welcome the opportunity to testify in support of these legislative initiatives to correct the injustice suffered by Senior Citizens born between the years 1917 and 1921.

Mr. Chairman, the views I present today are shared by many of our constituents, many of our colleagues, and by Senior Citizens throughout our Nation. I thank the Committee, therefore, for its willingness to consider this substantial body of opinion, and I hope that Committee members will be persuaded to see the merit in what our seniors have to say about the notch-year transition. Our Seniors, and many other responsible observers, are telling us that something is wrong with the social security benefit formula enacted in 1977, and we owe it to them to hear their concerns and take some form of corrective action.

The notch-year inequity stems from a Congressional effort to correct an error in the 1972 Social Security Act Amendments that threatened to bankrupt the entire social security system. In an unintentional miscalculation, Congress provided social security recipients with an increase that double-indexed for inflation, accounting for the rise in the cost-of-living not once, but twice.

Let the record show, however, that Congress had intended to provide social security recipients with some form of an increase in 1972. In 1977, when Congress revisited the issue, the intention of enhancing Senior Citizen benefits remained unchanged. In light of this fact, the treatment shown to notch-year recipients seems highly incongruous. Congressional intent is evident in the measures which Congress pursued to minimize the impact of the initial benefit reductions. Congress certainly did not intend to single out notch-year recipients for unfair or discriminatory treatment. Unfortunately, however, in another example of good intentions gone awry, the effect of the transition to the new formula fell disproportionately upon those Senior Citizens born during the notch-years 1917 to 1921.

The transition formula failed to work because it did not take account of earnings made after the age of 61, and it could not predict the double digit inflation suffered throughout the late 1970's and early 1980's. Thus, workers who turned age 63 in the years 1979 to 1983, immediately after the transition rule took effect, were subject to drastic benefit reductions of in some cases as much as 10 to 20 percent. This is certainly not the gradual benefit reduction of 6 to 10 percent which Congress had intended.

Congress did not intend for this transitional period to treat notch-year recipients overly harshly. We certainly did not intend to require benefit disparities of as much as $1,200 for workers born two days apart, simply because one worker was born in the wrong calendar year. The legislation which has been introduced in the 100th Congress, and which enjoys the co-sponsorship of more than 150 of our colleagues, would restore a fair and equitable transitional formula. H.R. 1917 and H.R. 3788 restore the original intent which Congress has displayed in both 1972 and 1977, without creating egregious benefit disparities and without threatening the future viability of the social security system.

Accordingly, I urge the Subcommittee to pursue these legislative initiatives which would allow for a more gradual transition to the newly corrected benefit formula. These proposals avoid the mistakes of the past. They would not throw us back to the double-indexed formula of 1972. They would not arbitrarily discriminate against a specific segment of our elderly population merely by virtue of their birth. Most importantly, they would restore confidence in the Federal government's willingness and ability to provide for the retirement years of our Nation's Senior Citizens in a manner which is fair and equitable. Mr. Chairman, I would submit that this is the true intent of social security.

Chairman JACOBS. Thanks, Ben.
Mr. Rinaldo.

STATEMENT OF HON. MATTHEW J. RINALDO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. RINALDO. Thank you very much, Mr. Chairman. I will submit my entire statement for the record, and summarize to the greatest extent possible.

First of all, I would like to touch on one or two points that have been overlooked or lost in the notch debate. I want to commend the subcommittee and state that you have attempted to be fair to Social Security workers, to beneficiaries, and to the future financial integrity of the system as a whole.

That is entirely appropriate. There could be nothing worse than a legislative solution that does not accomplish its goal while costing the system money that it cannot afford. If we are to fix the notch, we should approach any solution with deliberation and foresight. But there is more to the Social Security system than dollars; there is more than a tax rate; there is more than a benefit schedule.

Time and time again, we have heard Social Security described as one of the most successful programs ever enacted by Congress. It now pays benefits to approximately 36 million individuals with about 117 million workers paying taxes and earning the right to receive benefits when they retire.

The reason Social Security has been so successful is that it has always been perceived as being fair. That is the premise on which the Social Security system is based. That principle, which is fundamental to the fairness of Social Security, is challenged by the notch.

A graphic example is that of two sisters who reside in my congressional district, Lucy and Joanna Tucci. They were born 2 years apart, and they worked in comparable jobs their entire working lives. But even though Lucy's wages were 17 percent more than her sister's, her Social Security benefit is 15 percent less.

Another graphic example is that cited in the GAO report of two sisters who testified before the House Aging Committee 2 years ago. At that time the disparity in their benefits was $111.80 a month. Now, 2 years later, the disparity has grown to $155.

I know it will be said that the notch babies are getting what they are entitled to, that there is no reason to modify their benefits, that legislation is too expensive, or unwarranted, or would only create a new notch. I am well aware of those arguments, Mr. Chairman, and they cannot be ignored.

But I think there is also another point that cannot be ignored. That is that Social Security is a governmental program that owes its existence to political support. The notch undermines that support. Some people dismiss the issue by saying it is not a problem with Social Security; it is just a political problem. But even if the problem is political, it does not mean it is less real or less important.

I think as long as we ignore it, we do so at the peril of the system.

Social Security has long been viewed as a contract, based on certain principles, between Government, individuals and employers. The notch has shown that that contract does not apply equally. Some people obviously make out better than others.

For that reason, I, and a number of other Members, have introduced legislation to remedy the notch. I am the chief cosponsor of one of those bills, H.R. 1917. But I am not here this morning to advocate one particular approach over another.

What I am urging, and what I hope the subcommittee will do, is to look at this matter with a renewed interest, the interest it deserves, and a desire to address what is a real problem. It may be that any, or even all of the bills that have been introduced, are too expensive. It may be that they present technical problems, or that for one reason or another they are unworkable. That does not mean that some solution is unobtainable.

I hope the subcommittee will use the GAO report, the testimony it receives today, and do its best to deal with a problem that threatens the most fundamental principle on which Social Security is based. I pledge to work with you and do everything possible to come up with a reasonable solution to an extremely difficult problem.

Thank you very much for allowing me to testify here this morning.

[The statement of Mr. Rinaldo follows:]

MATTHEW J. RINALDO
7th District, New Jersey

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ENERGY AND COMMERCE
SUBCOMMITTEES
TELECOMMUNICATIONS AND FINANCE
(RANKING MINORITY MEMBER)
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Statement of
Rep. Matthew J. Rinaldo
Before the Social Security Subcommittee
April 14, 1988

Mr. Chairman,

I want to commend you for holding this hearing on the recently released Government Accounting Office (GAO) report on the Social Security notch.

This issue has generated tremendous concern, anger and confusion among literally millions of individuals. It has been the subject of hearings before the House Select Committee on Aging; the focus of reports in newspaper columns; a key issue in at least one Presidential primary state; an impetus for organizing tens of thousands of "notch babies" nationwide; and it has led to the introduction of several pieces of legislation in Congress aimed at alleviating the situation.

I do not believe I need to go into the details or the history of the notch for the members of the subcommittee. It is a subject with which I know you are very familiar.

Instead, I would like to touch on one or two points that I think have been overlooked, or lost, in the notch debate.

First of all, I would like to commend the subcommittee.

You have attempted to be fair to Social Security workers, to beneficiaries, and to the future financial integrity of the system as a whole. I think that is entirely appropriate.

There could be nothing worse than a legislative solution that doesn't accomplish its goal while costing the system money. If we are to fix the notch, we should approach any solution with deliberation and foresight.

But there is more to the Social Security system than a tax rate and benefit schedule. Time and time again, we have heard Social Security described as one of the most successful programs ever enacted. It now pays benefits to approximately 36 million individuals, with about 117 million workers paying taxes and earning the right to receive benefits when they retire.

The reason Social Security has been so successful, I think, is because it has always been perceived as fair. If you pay taxes, you earn a benefit. And the benefit you receive is directly related to the taxes you paid over a lifetime of working under the system.

That is the premise on which the Social Security system is based. And that principle - which is fundamental to the fairness of Social Security - is challenged by the notch.

A graphic example is that of two sisters who reside in my own district, Lucy and Joanna Tucci. They were born less than a year apart, and they worked in comparable jobs their entire working lives. But even though Lucy's wages were 17 percent more than her sister's, her Social Security benefit is 15 percent less.

Another graphic example is that cited in the GAO report of two sisters who testified before the House Aging Committee in 1986. At that time, the disparity in their benefits was $111.80 a month. Now, two years later, that disparity has grown to $155.

I know what many people will respond. They will say that the "notch babies" are getting exactly what they are entitled to and there is no reason to modify their benefits. They will say that legislation is too expensive, is unwarranted, and would only create a new "notch."

Mr. Chairman, I am well aware of those arguments. They cannot be ignored.

But I think there is another point that cannot be ignored. And that is that Social Security is a governmental program that owes its existence to political support. And the notch undermines that support.

Some people dismiss the issue by saying it is not a problem with Social Security: it is just a political problem.

I think that, so long as Congress ignores it, it does so at the peril of the system.

Social Security has long been viewed as a contract, based on certain principles, between government, individuals, and employers. But the notch has shown that the contract doesn't apply equally. Some people make out better than others.

For that reason, I and a number of other members have introduced legislation to remedy the notch. I am the chief cosponsor of one of those bills, HR 1917. But I am not here this morning to advocate one particular approach over another.

What I am urging is that the Subcommittee look at this matter with a renewed interest and a desire to address what is a real political problem.

It may be that any or all of the bills introduced are too expensive. That they present technical problems or that, for one reason or another, they are unworkable.

That does not mean some solution is unobtainable. I hope that the subcommittee will use the GAO report, the testimony it receives today, and do its best to deal with a problem that threatens one of the most fundamental principles on which Social Security is based.

Thank you.

# # #

Chairman Jacobs. Mr. Rinaldo, may I ask just one question?

Mr. Rinaldo. Absolutely.

Chairman Jacobs. Our colleague, Mr. Alexander, referred to a wrong in the case of the notch controversy. In your opinion, is the wrong that the notch people are getting less than the bonanza people, or that the bonanza people are getting more than was intended, more than the notch people?

Mr. Rinaldo. I think the wrong is neither of those.

Chairman Jacobs. Neither?

Mr. Rinaldo. I think the wrong is the fact that there is a vast perception that people are being treated unfairly. And I think that does not do the system any good because people are losing faith in it.

Chairman Jacobs. Yes. But putting that aside, which in your opinion is the actual wrong: that the one group is getting more or that the other group is getting less?

Mr. Rinaldo. That the other group is getting less.

Chairman Jacobs. So you think it is right that the erroneous formula should give more than was intended to those——

Mr. Rinaldo. I did not say that.

Chairman Jacobs. Yes, you did.

Mr. Rinaldo. What I am saying is that a mistake has been made. I think we have to recognize, just as a result of the case I mentioned, where two sisters worked——

Chairman Jacobs. Yes. Well, was it wrong for the one sister to get more than she deserved, or was it wrong for the other one to get what she deserved? That is my question.

Mr. Rinaldo. Mr. Chairman, I am willing to say Congress made a mistake. I am not going to fall into the trap of saying we are giving someone a bonanza.

I am saying we made a mistake.

Chairman Jacobs. What was the mistake if it was not a bonanza, Mr. Rinaldo?

Mr. Rinaldo. It is not an equitable system the way it is now operated.

Chairman Jacobs. Well, what was the mistake if it was not the overpayment?

Mr. Rinaldo. The formula was incorrectly put together.

Chairman Jacobs. And that was a mistake.

Mr. Rinaldo. That is right.

Chairman Jacobs. And it overpaid some people. But that was not wrong.

Mr. Rinaldo. Well, Mr. Chairman, if you want to take money away from those whom you feel are being overpaid, fine. I do not want to take any——

Chairman Jacobs. No. I just want a direct answer to a direct question. I hope I am not being unfair.

Mr. Rinaldo. What I intend to do, what I would like to do is work as hard as possible to the best of my ability—and I hope your subcommittee will—to come to some resolution of the problem so that people in my district——

Chairman Jacobs. Well, I will try that question on Mary Rose. She has a steel trap for a mind.

Mr. Rinaldo. Let me just finish.

So the people in my district, like the two sisters, do not have to be faced with that dilemma.

I mentioned it earlier. I do not know whether you listened carefully, but they were born a very short period apart——

Chairman **Jacobs**. I am not sure you listened to my question carefully.

Mr. **Rinaldo**. They worked in the same jobs practically. They worked their entire lives. And one person made 17——

Chairman **Jacobs**. Got more than she deserved, and the other one got what she deserved.

Mr. **Rinaldo**. I do not think that is fair.

Chairman **Jacobs**. I do not either. That is what I said, anyway.

Mr. Archer?

Mr. **Archer**. If the gentleman would just permit me for a moment, there are clearly many inequities in the Social Security system. Does the gentleman urge the subcommittee to go back and be sure that everybody, irrespective of when they were born, is going to get the same benefit for the same earnings record?

Do you think we should go back and raise, for example, the benefits for those people who retired between 1965 to 1970 who are getting less wage replacement than those who have retired in 1986 or 1987?

Mr. **Rinaldo**. No. There are a lot of ways you can look at it. There is some——

Mr. **Archer**. But if they are still living, is that an inequity that needs to be taken care of?

Mr. **Rinaldo**. I think the biggest inequity, real or imagined, is with the notch. I would say, based upon the clamor that has arisen across the country, that all of us owe a duty to those notch people to take a good, hard look at their situation. And maybe we do not have to go back and pay them retroactively. Maybe we can just look forward and at least even it out as much as possible so that we eliminate a problem that is undermining the entire structure of the system because faith in the system, credibility in the system is being diminished.

Mr. **Archer**. I thank the gentleman for his testimony. I do want to make one point, though.

Were these two sisters twin sisters?

Mr. **Rinaldo**. No, they are not.

Mr. **Archer**. Well, their wage records could not have been identical, then.

Mr. **Rinaldo**. Yes, they could. Absolutely.

Chairman **Jacobs**. Mr. Daub?

Mr. **Daub**. Thank you, Mr. Chairman.

Mr. Rinaldo, I appreciate your testimony. Because of our work on the Aging Committee together and your leadership for 4 years, particularly on the health and long-term care subcommittee, we got to talk about a lot of these things. I appreciate your leadership, and I respectfully take issue with the intensity and the kind of questions, because if you study carefully the formula, it adversely affects clearly the people who were born in 1918, 1919, and 1920, much more dramatically than people who were born in 1917 and 1921.

So if you cannot do everything for everybody, there clearly is an objective, not to be disputed difference in those 5 years.

Now, if you took military retirement, civil service, railroad retirement, or if you kept working past January 1, 1984, then you probably were not nearly as adversely impacted But if you are on Social Security and if, in fact, you took your first check between 1978 and 1983, and you were likely born between 1917 and 1921. People inside of that, in the years 1918, 1919 and 1920, were wrongly treated under the formula that was changed in 1977. Their table of benefits was not reduced evenly along with everybody else's. And I say that inequity ought to be correct.

Mr. **Rinaldo**. Well, I think it is easier to find reasons not to do anything than to find——

[Applause.]

Mr. **Rinaldo**. I think it is easier to find reasons not to do anything than to find a way to do something to correct the system. I would once again hope that the subcommittee would look at a method of correcting the system because it cries out for reform.

Chairman **Jacobs**. Mr. Crane?

Mr. **Crane**. Thank you, Mr. Chairman. I want to congratulate all the panelists for their testimony. [Applause.]

As a way of trying to bail out the Social Security program in 1983, amongst other things we dipped into general revenues. Franklin Delano Roosevelt said he would not accept a Social Security program that relied on general revenues. Each person, each worker was supposed to make his contribution and draw benefits accordingly.

Another thing we did was to put a means test into benefits; so that now if you are an individual past 65, you may pay taxes on 50 percent of your Social Security benefits. A means test and relying on general revenues would suggest that we are moving Social Security into a welfare category, and I would like to put a question to everyone out here in the audience.

Would all of you who are 40 years of age or younger, would you raise your hands? Forty years of age or younger.

[A show of hands.]

Mr. **Crane**. All right. Now, all of you who are 40 or under who are convinced that you are going to get as generous benefits under Social Security when you hit retirement as exist for current retirees, would you raise your hands?

[A show of hands.]

Mr. **Crane**. Well, I see about three hands going up out there.

The fact of the matter is, when the baby boomers start hitting retirement, we are going to be in a real crunch with about one and three-quarters workers in the work force supporting those in retirement. And when you talk about equity in the program, I think, as father of eight children and a grandfather for the first time this year, and with a father who is 87 years of age, we are all interested in equity. And what we should really be addressing is alternatives for these younger people out here who will not resent the $14 billion Social Security tax increase this year, another big tax increase scheduled for 1990. And I think they will pay it willingly and provide for the boomers, too. But we should be looking at some options for them.

Frankly, one of the most intelligent things it seems that we did, Mr. Chairman, was to create the IRA program. We should have been expanding the IRA program in the 1986 tax reform, and we should aggressively be looking to those kinds of options to minimize what is going to end up being a very nasty generational confrontation that we are headed into some time early in that next century. It is going to profoundly affect my children, my grandchildren, and I will probably be a beneficiary under the existing program with my kids and my grandchildren paying my benefits.

But if you look at the long term survival of this program, there are looming—and not that far off—there are looming inequities of a magnitude that make this whole debate insignificant. I would agree with the chairman that there are inequities, to be sure, but the inequities involve some people enjoying excess payments over what they really should have been drawing.

I would anticipate that we will get some testimony that will contradict my remarks, but the fact of the matter is I do not think any young person today realistically expects that the benefits are going to be there for him when he hits retirement.

I thank the chairman.

Chairman Jacobs. Mr. Crane, we are honored to have as one of our witnesses today the Lieutenant Governor of Rhode Island, whose schedule is quite pressing. I have asked the indulgence of the present panel. I know that Governor Licht will be concise in his remarks. Would you proceed, sir?

STATEMENT OF HON. RICHARD A. LICHT, LIEUTENANT GOVERNOR OF THE STATE OF RHODE ISLAND

Mr. Licht. Thank you very much, Mr. Chairman and members of the committee.

I appreciate the opportunity to appear hear this morning to address the notch issue, which is a matter of vital concern to more than 50,000 Rhode Island senior citizens and their families. Almost 15 percent of Rhode Island's population is 65 or older. Only the State of Florida has a larger percentage of senior citizens. Approximately 5 percent of our entire population was born between 1917 and 1921. Few issues have generated so much concern among so large a group of people. It is not hard, however, to understand the extraordinary outpouring of support from people in my State for notch adjustment legislation.

Did Congress really intend to provide an individual who was born in January 1917 and who retired at age 65 $88 a month less from Social Security than an individual with the same earnings history who was born in December 1916?

I believe not because it would have been seen as grossly unfair.

Since Congress would not have intentionally created such a system in the first place, fairness requires that we amend Social Security to address the notch issue in a fair and equitable manner.

Senator Sanford's bill and Representative Ford's bill represent what I believe is a reasonable solution to the problem. It would increase benefits an average of about $500 a year. It would have a one-time retroactive payment.

I understand, and we say it in our State legislature where I served for 10 years and where I now preside over the Senate, we understand that there is no such thing as a free lunch. And there are substantial costs associated with this bill, just as there are to other bills which were reviewed in the GAO's report.

However, I think the Ford legislation strikes a middle ground in terms of costs. It will add less than 3 percent to the total OASI expenditure and is a reasonable price to pay for more equitable treatment for millions of notch babies.

The notch issue is not an easy one to deal with, but after 8 years it is time to bite the bullet and find a workable solution. I think that a fairer transition rule than the one which was originally provided for is such a solution.

Thousands of seniors from all over Rhode Island are actively turning out on this issue. Approximately 3,000 from Rhode Island and southeastern Massachusetts demonstrated just 6 weeks ago. Just this Saturday, I appeared at a rally with over 800 people in Pawtucket, R.I., who came out on a Saturday morning to talk about this issue.

In conclusion, Mr. Chairman and members of the committee, it is important to really remember who the notch babies are. They are an entire generation of Americans, a generation that beat the Depression, fought and won the Second World War, and built a Nation whose freedom and prosperity remains the envy of the world. I would appreciate it very much if you would act on the Sanford bill. [Applause.]

[The statement of Lieutenant Governor Licht follows:]

Testimony of Lt. Governor Richard A. Licht
Subcommittee on Social Security
April 14, 1988

Mr. Chairman, members of the subcomittee, my name is Richard A. Licht. I am Lieutenant Governor of Rhode Island and I appreciate the opportunity to appear here this morning to urge the subcommittee to address the notch issue, a matter of vital concern to more than 50,000 Rhode Island senior citizens and their families.

Mr. Chairman, this is an issue of special importance to Rhode Island. Almost 15% of Rhode Island's population is 65 or older. Only Florida has a larger percentage of seniors citizens. Approximately 5% of our population was born between 1917 and 1921. Few issues have generated so much concern among so large a group of people. It is not hard to understand the extraordinary outpouring of support from people in my state for notch adjustment legislation.

Did Congress intend to provide an individual, who was born in January 1917 and who retired at age 65, $88 a month less from Social Security than an individual, with the same earnings history, who was born in December 1916?

Did Congress really intend to provide an individual, who was born in January 1917 and who retired at age 68, $143 a month less from Social Security than an individual, with the same earnings history who was born in December 1916?

I believe the answer to both these question is clearly "no". Why? Because it would have been seen as grossly unfair. But that is, in fact, what happened as a result of the 1977 Amendments.

Since Congress would not have created such a system in the first place...fairness requires that we amend Social Security to address in a fair and equitable manner the notch issue.

S.1830, The Social Security Notch Adjustment Act, introduced by Senator Terry Sanford represents a reasonable solution to the problem.

Under the bill individuals born between 1917 and 1929 will be better off than under current law. It will increase benefits for notch babies by an average of $500 a year...although the actual amount will vary depending upon an individual's earnings history. It will also provide current retirees with a one-time benefit of up to $1,000 to help compensate for the reduced level of benefits received since retirement.

There is no such thing as a free lunch...and there are substantial costs associated with the Sanford bill...just as there are to the other bills reviewed in the GAO report. This legislation strikes a middle ground in terms of cost. It will add less than 3% to the total OASI expenditure, and is a reasonable price to pay for more equitable treatment for millions of notch babies.

The notch issue is not an easy one to deal with. But after eight years...it's time to bite the bullet and find a workable solution. The Sanford bill is the workable solution. It does not provide notch babies the benefits they would have recieved under the law prior to 1977. It does not try to roll back the clock to the law as it was in 1972. A mistake was made in 1972 and an adjustment was necessary. The Sanford bill does, however, provide, on balance, a fairer transition rule than the one provided for under the 1977 amendments. Perhaps that is only true in retrospect...but it is true nonetheless.

Thousands of seniors from all over Rhode Island are rallying to the Sanford bill. Approximately 3,000 from Rhode Island and Southeastern Massachusetts demonstrated this past February at a rally organized by the Greater Fall River Coalition of Notch Babies in Swansea Massachusetts. Just a few days ago more than 800 people jammed Tolman High School in Pawtucket, Rhode Island for a rally sponsored by the Rhode Island Coalition of Notch Babies to call for passage of the Sanford bill. More rallies are planned across the state.

It is important to remember who the "notch babies" are. They are not some special interest group. They are an entire generation of Americans...a generation that beat the Depression, fought and won the Second World War, and built a nation who's freedom and prosperity remains the envy of the world.

I urge you to adopt the Sanford bill. Thank you.

Chairman JACOBS. Governor, we are very honored by your appearance here today. I know your schedule is pressing, and you can be excused if you wish.

Mr. LICHT. Thank you very much.

Chairman JACOBS. We will proceed with our regular order now. On the panel, I believe the first witness is Butler Derrick.

Mr. Derrick, you are most welcome.

STATEMENT OF HON. BUTLER DERRICK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. DERRICK. Thank you, Mr. Chairman. I ask unanimous consent to have my statement admitted in the record.

Mr. Chairman, I will be brief. Let me say that I appreciate what the committee is doing. You know, I have been telling my constituents for some years now that we are going to work this problem out. And I have faith that we are going to work it out and work it out soon, hopefully very shortly.

You can argue about who is getting paid more and who is getting paid less and so forth and so on. But there are millions of senior Americans out there who perceive themselves as being victimized by the Congress. Now, they see the people who retired just a very few years before them getting $100 more a month or $200 more a month. These are citizens, as the Lieutenant Governor pointed out, that have lived through the Depression, fought the Second World War, and have contributed to making this country the greatest Nation in the world. They feel like they have been done wrong by their Government.

As I say, you can argue about who is making more or who is making less, but they perceive that the Congress is not treating them justly and that they are victimized. I think it is something that we need to deal with, that we must deal with, and I would please request the committee to get a hold of it and deal with it.

I am a cosponsor of the Roybal bill and would like to see some positive results very shortly. Thank you. [Applause.]

[The statement of Mr. Derrick follows:]

STATEMENT OF HON. BUTLER DERRICK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman, thank you for this opportunity to address your panel on the Social Security "notch" issue. My statement will be brief, because I know the arguments in favor of correcting this injustice have been and will be pointed out to you many times today.

It is absolutely imperative that we, the Congress, recognize that we have erred, and make right our past mistake. I am fully aware that individuals born before 1917 are receiving a bonanza benefit that is far above what the law originally intended. I regret that we allowed that to occur, and acknowledge that the 1977 correction was indeed necessary. Nevertheless, to balance that error by a formula that discriminated against another age cohort, is unacceptable. Sir, two wrongs do not make a right!

Plainly and simply, the special "transition" formula that citizens born between 1917 and 1921 may use is flawed. The formula does not take into account a beneficiary's earnings after age 61. Many, many people work beyond age 61 in order to support themselves and their families. Should we punish them for this act of self-reliance? I think not.

Along with over a hundred of my colleagues, I believe that the time has come to make the final correction. Congressman Roybal has written a piece of legislation that would make the transition to the new formula fairer to all, and at a reasonable cost to the Social Security Trust Fund. The Trust Fund regularly "invests" its surplus funds in the federal government, and has indeed displayed an enviable solvency in recent years. This solution would not break the bank and I urge approval of H.R. 1917.

In closing, I would like to share with you my experience with the strength and depth of the concern in my District over this issue. Throughout the Easter Work Period, I held public hearings in every area of the Third District. At every single encounter, I was addressed by "notch babies" who feel their federal government has reneged on a contract. In effect they feel betrayed by the country they have loved and served through the crises of the century: the Great Depression and World War II. I will be proud of this country and our legislative body when we admit our error, correct the injustice, and honor those who have come before us.

Thank you.

Chairman JACOBS. Thank you.

Congresswoman Lloyd.

STATEMENT OF HON. MARILYN LLOYD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Ms. LLOYD. Thank you very much, Mr. Chairman. I do appreciate you scheduling these hearings so that we can hear some of the grievances of our constituents.

I just returned, as most all my colleagues have, from the Easter work period, and I can tell you from my town hall meetings, my talk shows that the number one issue that came up at every hearing was the subject of the notch.

I was not here in 1972 when the unfortunate error was made in the automatic cost-of-living feature that became a part of the Social Security law. But I was here in 1977 when Congress sought to correct the error with the notch legislation.

Mr. Chairman, I opposed the notch legislation then, and I was one of the original sponsors of a bill to repeal it after it became law.

I do not think we can stand here or sit here and pretend that it is fair to treat workers with comparable earnings and work histories in an unequal manner, depending on when they were born. It just is not fair. If there is any one thing that threatens to undermine the integrity of a system in which workers are forced to contribute a substantial percentage of their earnings, it is the perception of those behind and those ahead that they will not be treated fairly when they are ready to retire.

Mr. Chairman, the notch has created an unhealthy and unpleasant precedent for current and future generations of Social Security beneficiaries. It has caused dissension among groups of beneficiaries and organizations that represent the interests of older Americans. And it has caused contempt for and it has caused distrust of the system among those who do feel cheated.

Mr. Chairman, we created this monster, and now it is up to Congress to slay the monster once and for all. I do congratulate you for holding the hearings, and I hope that this hearing will be the first step towards resolving an issue that really is undermining national confidence in the Social Security system.

I thank you. [Applause.]

[The statement of Mrs. Lloyd follows:]

STATEMENT BY HON. MARILYN LLOYD
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY
HEARING ON THE REPORT OF THE GENERAL ACCOUNTING OFFICE
ON THE "NOTCH" ISSUE
Thursday, April 14, 1988

MR. CHAIRMAN,

I WANT TO THANK YOU FOR SCHEDULING THIS HEARING ON THE SOCIAL SECURITY "NOTCH", AND FOR GIVING ME THE OPPORTUNITY TO REPRESENT THE CONCERNS OF MY CONSTITUENTS ON THIS IMPORTANT ISSUE.

ALTHOUGH I WAS NOT HERE IN 1972 WHEN THE UNFORTUNATE ERROR WAS MADE IN THE AUTOMATIC COST-OF-LIVING FEATURE THAT BECAME A PART OF THE SOCIAL SECURITY LAW, I WAS HERE IN 1977 WHEN CONGRESS SOUGHT TO CORRECT THE ERROR WITH THE "NOTCH" LEGISLATION. I OPPOSED THE "NOTCH" LEGISLATION THEN, AND WAS ONE OF THE ORIGINAL SPONSORS OF A BILL TO REPEAL IT AFTER IT BECAME LAW.

IN SUBSEQUENT CONGRESSES, I INTRODUCED AND COSPONSORED MEASURES TO REPEAL AND/OR EASE THE IMPACT OF THE "NOTCH" ON THOSE BORN DURING THE 1917-1921 TRANSITIONAL YEARS. IT WAS DURING THIS PERIOD OF TIME THAT THE SOCIAL SECURITY TRUST FUNDS WERE FACING A CHRONIC SHORTAGE OF FUNDS, AND THE ANSWER WAS THAT THE SYSTEM COULD NOT AFFORD TO ADDRESS THE "NOTCH".

IT WAS ALSO DURING THIS SAME PERIOD OF TIME THAT OUR COUNTRY WAS EXPERIENCING DOUBLE DIGIT INFLATION RATES WHICH, BECAUSE OF THE INDEXATION OF BENEFITS, COMPOUNDED THE FINANCIAL TROUBLES OF THE SOCIAL SECURITY TRUST FUNDS. BUT WHAT THE 1977 LEGISLATION FAILED TO ANTICIPATE WAS THAT INFLATIONARY COLAS WOULD ALSO COMPOUND SOCIAL SECURITY PAYMENT DISPARITIES BETWEEN PRE-NOTCH (THOSE BORN BEFORE 1917) AND POST-NOTCH BENEFICIARIES (THOSE BORN AFTER 1916).

WE CANNOT STAND UP HERE AND PRETEND THAT IT IS FAIR TO TREAT WORKERS WITH COMPARABLE EARNINGS AND WORK HISTORIES IN AN UNEQUAL MANNER DEPENDING ON WHEN THEY WERE BORN. IT IS NOT FAIR. AND, IF THERE IS ANY ONE THING THAT THREATENS TO UNDERMINE THE INTEGRITY OF A SYSTEM TO WHICH WORKERS ARE FORCED TO CONTRIBUTE A SUBSTANTIAL PERCENTAGE OF THEIR EARNINGS, IT IS THE PERCEPTION THAT THEY WILL NOT BE TREATED FAIRLY WHEN THEY ARE READY TO RETIRE.

THE "NOTCH" HAS CREATED AN UNHEALTHY AND UNPLEASANT PRECEDENT FOR CURRENT AND FUTURE GENERATIONS OF SOCIAL SECURITY BENEFICIARIES. IT HAS CAUSED DISSENTION AMONG GROUPS OF BENEFICIARIES AND ORGANIZATIONS THAT REPRESENT THE INTERESTS OF OLDER AMERICANS. AND, IT HAS CAUSED CONTEMPT FOR AND DISTRUST OF THE SYSTEM AMONG THOSE WHO FEEL CHEATED BY THE "NOTCH".

MR. CHAIRMAN, CONGRESS HAS CREATED A MONSTER, AND IT IS NOW UP TO CONGRESS TO SLAY THE MONSTER ONCE AND FOR ALL. I HOPE THIS HEARING WILL BE THE FIRST STEP TOWARD RESOLVING AN ISSUE THAT IS UNDERMINING NATIONAL CONFIDENCE IN THE SOCIAL SECURITY SYSTEM.

Chairman JACOBS. Thank you, Congresswoman Lloyd.

Mr. Murphy.

STATEMENT OF HON. AUSTIN J. MURPHY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. MURPHY. Thank you, Mr. Chairman.

I'm Austin Murphy from the State of Pennsylvania, and I want to thank you, Mr. Chairman [applause] and your members for——

Chairman JACOBS. You must be a great guy up in Pennsylvania, Austin.

Mr. MURPHY. Thank you. Thank you very much, Mr. Chairman.

I want to thank you very much for addressing this issue and your panel members for being so patient today to hear many witnesses.

This matter has been festering with the public for over 4 years. It is perhaps the most prevalent issue in my district of people believing and knowing that they are treated unfairly under the payment system created in a late December night in 1977. And I'm pleased to say that I had the foresight at that time to vote no on that legislation when it was voted on late that December evening.

We are here addressing a matter of fairness. You have heard statistics from all of the members. I have a 2-page statement filled with statistics which I will leave with you.

But I want to say that I appreciate you taking the first step in Congress addressing this very important issue. I hope that you will see fit to report the matter—one of the bills, I'm a sponsor of H.R. 1917, Mr. Ford has a bill, we have many bills—if you will report one of the bills with your recommendations to the full committee, and they will allow Congress on the floor to address this situation.

That's all the people from my district are asking, that's all the people are asking, that Congress will have an opportunity to address this inequity on the floor of the House.

You've heard many statistics. I have more to submit to you. One I would like to call to your attention, that in 1943, the average age of the notch baby was 22 years of age. They were the persons answering the call in World War II, they were the persons who today as aged veterans believe that they have unfairly picked upon by the Congress of the United States.

I ask for an opportunity to meet this problem on the floor. The people I've talked to in my district, the people who have come down here, are not asking for retroactive benefits, they're asking for fairness from this day forward, and I hope that we can give that to them.

Thank you, Mr. Chairman, and members of the committee. [Applause.]

[The statement of Mr. Murphy follows:]

STATEMENT OF CONGRESSMAN AUSTIN J. MURPHY

Mr. Chairman:

Whenever I travel through my Congressional District, the one issue that comes up most often is that of the NOTCH problem. Senior citizens who have led a long and productive life, who have raised a family and who have met all of their obligations prior to retiring, now must begin their retirement knowing that the Social Security benefits that they receive are not fair and equitable and that Congress is to blame.

Prior to 1972, Congress had to make ad hoc changes in Social Security benefits in order to adjust them for the effects of inflation and varying economic conditions. The results of this process were often inadequate and unpredictable. Congress changed this in 1972 by mandating automatic cost-of-living adjustments for benefit recipients but we also, unintentionally, set the stage for the existence of the Social Security NOTCH.

In our attempt to make these automatic adjustments as fair and equitable as possible, we put together a series of formulas which failed to foresee the topsy-turvy economic swings of the late 1970's. So while Congress tinkered and fiddled with the adjustment formulas, a large group of retirees and potential retirees have been forced to do without the equity and fairness that the law was supposed to provide in the first place.

I have read in various publications that the NOTCH effect only amounts to about a $100 per month difference in the retirement checks of those born after 1916. Well, judging by the comments of my constituents, the difference is more like $200 to $300 dollars per month. The results of this inequity can have a lasting effect on the quality of one's retirement years.

The real message contained in this Government Accounting Office report tells of the extremely bad job that Congress did when it tried to correct its previous mistakes. Once we recognized the problem, we seemed incapable of enacting the proper changes that would make it right. The time has come for Congress to read the GAO report, to recognize the unfair situation into which we have placed millions of retirees born between 1917 and 1921 and to carefully and thoughtfully design corrective legislation to recitify the situation.

Looking back through my records, I cannot even begin to count how many people have journeyed from Pennsylvania to Washington D.C. seeking a solution to the NOTCH problem. Literally hundreds of Pennsylvanians have, at great personal expense, brought this issue right to our doorsteps. I am proud to say that I have stood on the steps of the U.S. Capitol and gazed out upon thousands of NOTCH Babies who have hoped and prayed that this day and this hearing would come.

I congratulate this Committee for having the wisdom to request that the GAO undertake a comprehensive study of the NOTCH Problem and for sticking to their promise to hold this hearing today. There has been a great deal of misleading and often erroneous information about causes of and the cures for the NOTCH problem. This hearing will make a tremendous impact upon everyone's understanding of this complex and very emotional issue.

Our insensitivity to this problem is especially upsetting when you consider that many of those retirees who suffer the effects of the NOTCH are also distinguished veterans of the Second World War. Men and women who put their lives on the line to keep this country safe feel that they have been cheated out of something that rightfully belongs to them and to their entire generation.

Nothing about this issue so disturbs me as when I perceive the underlying tone of various articles and stories about the NOTCH which seem to imply that this older generation is somehow greedy and not entitled to this adjustment. This could not be further from the truth. Equity demands, for the sake of everyone who pays into the Social Security system, they be treated fairly and consistently by the program and the Congress. If we fail to keep our promises, if we fail to make the system fair and keep the system fair when we recognize that certain changes are needed, we run the risk of greatly reducing the faith that people have in the Soical Security program.

The citizens of our nation enjoy some of the longest lifespans on this planet. Men and women today can expect to live well beyond seventy years old. What kind of retirement are we promising to these people when it is demonstrated to them that their major source of retirement security, the Social Security system operates unfairly and fails to earn their faith and confidence?

The time has come for Congress to reject the excuses of those who claim that any legislation to correct the Notch will cost too much. Any correction will have a price, but that price must be balanced against the inequity of the present system. Those currently effected by the Notch can clearly see, by talking with friends and relatives, how much money they are missing from their benefits each and every month because we in Congress cannot demonstrate the strength required to do what is right.

I would like to thank the Committee for giving me this opportunity to come before it today to tell you about my personal experience with the NOTCH problem. I hope that the Committee will pay close attention to what is said here today by the witnesses and that it will either endorse one of the current pieces of legislation offered to correct this problem or, if they believe that new legislation is needed, introduce a Committee bill to address the NOTCH. Even though I am an original cosponsor of H.R. 1917, I am willing to trust the judgment of this Committee to do what is right and best for our senior citizens. The eyes of many millions of people are watching this Congress and I hope that we will use the results of this hearing to lay this issue to rest once and for all.

Chairman JACOBS. Thank you.
Ms. Oakar.

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. OAKAR. Thank you, Mr. Chairman.

Mr. Chairman, I'm sorry Mr. Archer and Mr. Crane couldn't stay. I know they've been here for awhile. I don't think this is a generational issue. And I think that it's very unfortunate, with all due respect to my friend from Illinois, to try to make this a generational problem.

The fact is Social Security has never missed a check for anybody since 1936 unless there were problems in the mail or the computer went out.

And Social Security is not a status quo type of insurance plan. Congress and the administrations over the years have seen fit to add disability and to take into consideration Medicare. Hopefully, we'll do some things in the future related to earning sharing, as Canada has done.

But the fact of it is to view it in that manner frankly I think is not—at least that's not the way I view it, and I think those arguments pitting one age group against other is very unfortunate, because I think kids care about whether their grandparents are being treated fairly, and so forth.

The other point that I wanted to make should have nothing to do with Gramm-Rudman. I mean the fact is we shouldn't have Social Security used as an illusionary method of offsetting the deficit. We ought to take it out of the budget the way it was intended to be [applause] and, you know, that is a problem.

If we do that, we have to, you know, do it in a way that we don't upset the economy because of that planned illusion. And I wanted to make those point before I begin my testimony.

Mr. Chairman and members of the committee, I think this is a very significant hearing, and it's not an easy task. Many people have mentioned the fact that seniors think they've been cheated. In particular, those in this age group feel we may be giving the impression that this is more of a political issue than a practical issue.

The fact is, sure it's political because a lot of seniors think they're being cheated but, in a practical manner, the fact is I believe they are being cheated, and I think the formula is unfair. And I don't think it's unfair necessarily because of what people receive who were born between 1910 and 1916. I think it's unfair because of the intent of Congress in 1977, which is stated over and over and over again, and what actually happened.

We did not intend that to happen. And because this is a progressive kind of issue, we ought to correct the problem if what we intended did not take place. That's really the issue, not pitting one group against other in that age range at all.

So I think the notch situation is unfair, and I agree with people who think it's unfair.

Mr. Chairman, you know who these notch seniors. They're people who served in World War II. They're widows who are recipients of the dependent spousal benefit. They are older women who are head of their own households. And I think one of the most intrinsic flaws, and I'm a fan of GAO, I support GAO, I'm sorry I couldn't be here for their testimony, but one of the big flaws of that analysis is that they pay special attention to married men and their spouses. In contrast, they minimize the income level of lower income people and pass that off as if that's not important.

Now, I want to give you a few examples of what I'm talking about.

GAO tends to focus in on married men, and there's nothing wrong with that because they're being cheated too. However, the fact is those individuals who are over 65, happily married men, and their spouses are more likely to have other sources of income. That doesn't mean that we shouldn't treat them fairly. But that is an inherent flaw of this report and, you know, everything after that is, as far as I am concerned, minimized as to its effectiveness.

And yet, Mr. Chairman, the poorest person in the country is a woman over 65 years of age, whose Social Security check is no more than about $390. And I was sort of outraged when the report makes light of the fact that some beneficiaries only lose $10 to $20 a month. That amount to a poor person means the difference of survival or death. And I think the manner in which this report is written is inaccurate. I hope you're not basing your judgment just on this report I guess is what I'm saying. And I'm sure GAO did it in good faith.

As a matter of fact, if you take the issue comprehensively, we're not talking about high beneficiaries. I mean a senior who was born before 1917. Their average checks are about $6,700 a year. So we're not talking about fat cats who were born before 1917.

And the average benefit for the notch recipients is less than $5,500 a year.

So even to pit those born before with those born after, it's really out of context in terms of what the real sensitive issue is, in my judgment.

In addition, many notch recipients, particularly women, took the reduced benefit at age 62, not 65, which makes most of them poverty level since the average benefit for those individuals who took that reduced benefit is about $300 a month.

Mr. Chairman and members, with regard to the adoption of the amendments of 1977, I'd like to submit the following:

Congress never "intended that the dollar amounts of the benefits paid in the future would be lower than present levels." In fact, purchasing power—we were told over and over again if you read the report in the Senate Finance Committee print and so on—would be higher.

Two, the intention of the 1977 amendments, according to many reports, including the chairman and other members of the Ways and Means Committee, and many of you were on the committee at that time, was a 5-percent reduction from 1979 levels. And the reduction for a person 65 was more than 15 percent, from a permanent replacement rate of 48 percent for one who retired in 1979 to 40 percent for a worker born in 1920. In the first year for the typical notch senior, the reduction rate was more than 10 percent.

That is a permanent loss to these people, because the cost of living adjustments that came after that, and if my memory serves me correctly, we have only frozen one cost of living adjustment, we have not given one cost of living adjustment. That's a permanent loss.

During the debate in 1977, the replacement rate was about 45, ratios of benefits at retirement of gross earnings is what we're talking about here, and every percentage point, many authorities say, represents about $175 a year.

So most notch seniors today receive about 4 percent less of a replacement rate than Congress intended. And this translates to about $700 or more a year.

Now, Mr. Chairman, if one is living on that $4,800 to $5,700 a year, that's quite a substantial amount of money. And, Mr. Chairman, you know and I know that one of the great myths is that most of these people are so wealthy. The fact is that only 30 percent of any retirees have any other source of income. And when you get to poorer women, only 10 percent have any other source of income.

So the reality is today that that's it for most people and they survive on this benefit.

Finally, Mr. Chairman, I think it is a fair question to ask if the trust fund can afford the additional revenues needed to resolve the notch problem.

Commissioner Myers, a recognized authority, has testified that we should return to the current cost financing, to reduce payroll taxes because of the hefty reserves. And as I mentioned earlier, the reserves are used to give the illusion that the deficit of the budget is less.

We should take the trust fund, as I mentioned, out of the budget to disallow this administration or any administration from dipping into the reserves of pension insurance trust funds, as they did several years ago when they borrowed and found this convoluted bank that was established in the thirties that we haven't used since then.

If my memory serves me correctly, and I'll try to submit this more accurately for the record, they borrowed, as I recall, $29 billion from the Social Security trust fund, $5 billion from the civil service retirement trust fund, and about $3 billion from the railroad retirement trust fund. And it was Congressman Jim Jones, a former chair of this committee, and I in the Gramm-Rudman conference committee which offered the amendments that made the administration pay back the moneys to the trust funds. If we hadn't done this, and Congress hadn't concurred, that would have been a permanent loss to the trust funds with interest.

And so I strongly believe that providing relief and fairness for the notch seniors would not seriously impact if phased in on the reserves of the Social Security trust fund.

There are lots of proposal. I happen to favor H.R. 1917, but something should be done. I think it's a minimal cost, and I think the arguments about perception mean an awful lot.

There is only one other issue, and it's in my testimony, Mr. Chairman, but one other issue that really bugs me about the GAO report, among other things, and that is that the GAO report glosses over like one or two paragraphs, as I recall, the compensation that should be made for those seniors who contributed to the Social Security system after age 61 and did not have this contribution included in their benefit calculations. This is really a clear-cut example of inequity and inconsistency. And I think that the one thing that we feel strongly about, because it's almost like the bank reserves of our country, people have to have confidence in our system. It's been a great system and it needs to be corrected. It's fluid, but we try to make it the best system in the world.

But when we make a mistake and the intention of Congress doesn't work out, we change things.

So, Mr. Chairman, I know you're determined to be fair, but I'm telling you, if you get to the skin of the issue, there is a legitimate complaint that we are not really operating under the formula that Congress intended. I honestly believe that, and I know that many members of the Aging Committee believe that it's not a question of political clamor. Now, let's just get that off the table. As much as we respond to our constituents, this is really a fairness issue, and some people are not being treated fairly. I think we ought to correct it.

Thank you, Mr. Chairman.

[The statement of Ms. Oakar follows:]

TESTIMONY OF THE HONORABLE MARY ROSE OAKAR
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
HEARING ON THE SOCIAL SECURITY NOTCH

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, RESPECTED GUESTS AND MEMBERS OF THE AUDIENCE:

THANK YOU FOR THE OPPORTUNITY TO PARTICIPATE IN THIS HEARING. I APPRECIATE THE GOOD WORK ACCOMPLISHED BY YOU, MR. CHAIRMAN, AND I APPRECIATE THE EXCELLENT WORK PRODUCED BY YOUR STAFF. I REALIZE THAT IT IS NOT EASY TO WORK UNDER DIFFICULT PRESSURES SUCH AS THOSE GENERATED BY THIS ISSUE. CONSEQUENTLY, I APPLAUD YOUR TENACITY AND CONTINUED GOAL OF SERVING SENIOR CITIZENS IN A FAIR AND EQUITABLE MANNER.

MR. CHAIRMAN, TO THE CHAGRIN OF ALL OF US INVOLVED, THE SOCIAL SECURITY NOTCH PROBLEM HAS EXISTED FOR TOO MANY YEARS. IT IS AN ISSUE THAT AGGRAVATES THOSE AFFECTED BY THE NOTCH AND MEMBERS OF THE LARGER BODY POLITIC WHO MUST DEAL WITH ITS POLICY IMPLICATIONS. TO UNDERSTATE THE MATTER, IT HAS BEEN FRUSTRATING AND PERPLEXING FOR ALL OF US.

HOWEVER, OUR CONSTITUENTS HAVE SPOKEN LOUDLY ON THIS SUBJECT. SENIOR CITIZENS AFFECTED BY THE NOTCH DEMAND AN EQUITABLE SOLUTION TO THE PROBLEM. NOTCH SENIORS SEE THE DISPARITY BETWEEN THEIR BENEFITS AND THOSE OF OTHER OLDER AMERICANS AND ASK THE QUESTION: "WHY SHOULD SOMEONE BORN JUST A SHORT TIME BEFORE ME WHO HAS CONTRIBUTED THE SAME AMOUNT OF MONEY TO SOCIAL SECURITY RECEIVE MORE IN MONTHLY BENEFITS?" THEY BELIEVE THE NOTCH SITUATION IS UNFAIR AND I AGREE WITH THEM.

I THINK IT IS IMPORTANT TO ASK OURSELVES, "WHO ARE THE NOTCH SENIORS"? THEY ARE THOSE WHO SERVED IN WORLD WAR II, THEY ARE WIDOWS WHO ARE RECIPIENTS OF THE "DEPENDENT SPOUSAL" BENEFITS, AND THEY ARE OLDER WOMEN WHO WERE HEAD OF THEIR OWN HOUSEHOLDS. ONE OF THE MOST INTRINSIC FLAWS OF THE GAO REPORT IS THAT THEY ACKNOWLEDGE THAT THE REPORT EXAMINES ONLY MARRIED MEN (AND THEIR

SPOUSES). THESE ARE INDIVIDUALS WHO ARE MORE LIKELY TO HAVE OTHER INCOME SOURCES. IN ADDITION, THE FOCUS IS ON HIGH BENEFIT DISPARITIES -- IN OTHER WORDS, THE HIGH INCOME BENEFICIARY.

MR. CHAIRMAN, THE POOREST PERSON IN THE COUNTRY IS A WOMAN OVER 65 YEARS OF AGE. SHE LIVES ON A SOCIAL SECURITY CHECK OF NO MORE THAN $390.00 A MONTH. IT IS MOST OFTEN HER ONLY SOURCE OF INCOME. THE REPORT MAKES LIGHT OF THE FACT THAT SOME BENEFICIARIES ONLY LOSE $10-20 PER MONTH. THAT AMOUNT TO A POOR PERSON CAN MEAN THE DIFFERENCE OF SURVIVAL OR DEATH.

AS A MATTER OF FACT, IF ONE EXAMINES THE ISSUES COMPREHENSIVELY, WE ARE NOT TALKING ABOUT "HIGH BENEFICIARIES". THE AVERAGE SENIOR BORN BEFORE 1917 RECEIVES ABOUT $6,700.00 PER YEAR. THE AVERAGE BENEFIT FOR THE NOTCH RECIPIENTS IS LESS THAN $5,500.00 PER YEAR. IN ADDITION, MANY NOTCH RECIPIENTS TOOK THE REDUCED BENEFIT AT AGE 62 -- NOT 65, WHICH MAKES THEM POVERTY LEVEL TODAY. THEIR AVERAGE BENEFIT IS ABOUT $300.00 PER MONTH.

MR. CHAIRMAN, WITH REGARD TO THE ADOPTION OF THE 1977 AMENDMENTS, I SUBMIT THE FOLLOWING:

1. CONGRESS NEVER INTENDED THAT "DOLLAR AMOUNTS OF BENEFITS PAID IN THE FUTURE WOULD BE LOWER THAN PRESENT LEVELS." IN FACT PURCHASING POWER WOULD BE HIGHER. (HOUSE REPORT 702 AND SENATE FINANCE COMMITTEE PRINT OF 1977).

2. THE INTENTION OF THE 1977 AMENDMENTS, ACCORDING TO THE MANY REPORTS, INCLUDING THE WORDS OF THEN CHAIRMAN AL ULMAN, WAS A 5% REDUCTION FROM 1979 LEVELS. THE REDUCTION FOR A PERSON 65 WAS MORE THAN 15% -- FROM A REPLACEMENT RATE OF 48% FOR ONE WHO RETIRED IN 1979 TO 40% FOR A WORKER BORN IN 1920. IN THE FIRST YEAR FOR THE TYPICAL NOTCH SENIOR, THE REDUCTION RATE WAS MORE THAN 10%.

DURING THE DEBATE, THE REPLACEMENT RATE IS 45%-44% (RATIOS OF

BENEFITS AT RETIREMENT OF GROSS EARNINGS). EVERY PERCENTAGE POINT REPRESENTS ABOUT $175 PER YEAR. MOST NOTCH SENIORS RECEIVE 3%-4% LESS OF A REPLACEMENT RATE THAN CONGRESS INTENDED. THIS ALONE TRANSLATES INTO A LOSS OF AT LEAST $525 TO $700 PER YEAR.

MR. CHAIRMAN, IF ONE IS LIVING ON $4800 PER YEAR, $700 IS ABOUT ONE-SEVENTH OF WHAT THAT INDIVIDUAL LIVES ON.

FINALLY, MR. CHAIRMAN, THE QUESTION IS: CAN THE TRUST FUND AFFORD THE ADDITIONAL REVENUES NEEDED TO RESOLVE THE NOTCH PROBLEM. FORMER COMMISSIONER ROBERT MEYERS, A RECOGNIZED AUTHORITY BELIEVES THAT WE SHOULD RETURN TO CURRENT COST FINANCING TO REDUCE PAYROLL TAXES BECAUSE OF THE HEFTY RESERVES. YOU KNOW THAT THE RESERVES ARE USED TO GIVE THE ILLUSION THAT THE DEFICIT OF OUR BUDGET IS LESS.

WE MUST TAKE THE TRUST FUND OUT OF THE BUDGET TO DISALLOW THIS ADMINISTRATION -- OR ANY ADMINISTRATION -- FROM DIPPING INTO THE RESERVES OF PENSION AND INSURANCE TRUST FUNDS AS THEY DID SEVERAL YEARS AGO WHEN THEY "BORROWED" SOCIAL SECURITY, CIVIL SERVICE AND RAILROAD RETIREMENTS FUNDS. CONGRESSMAN JIM JONES AND I OFFERED THE AMENDMENTS DURING THE GRAMM-RUDMANN CONFERENCE WHICH FORCED THE ADMINISTRATION TO PAY BACK THE MONEY TO THE TRUST FUNDS.

I STRONGLY BELIEVE THAT PROVIDING RELIEF AND FAIRNESS FOR THE NOTCH SENIORS WOULD NOT SERIOUSLY IMPACT ON THE RESERVES OF THE SOCIAL SECURITY TRUST. THERE ARE MANY PROPOSALS. I FAVOR H.R. 1917, BUT SOMETHING SHOULD BE DONE. THE MINIMAL COST WILL RELIEVE THE BELIEF THAT THE SOCIAL SECURITY SYSTEM IS NOT FAIR TO MILLIONS OF AMERICANS.

MR. CHAIRMAN, IN SPITE OF THE FINDINGS OF THE GAO REPORT, I DO NOT BELIEVE THE CONGRESS INTENDED TO CREATE SUCH AN ABRUPT AND CRUEL SITUATION. IF TIME IS TAKEN TO EXAMINE THE DEBATE SURROUNDING THE PASSAGE OF THE BILL AND THE CONFERENCE REPORT, EVERYONE WILL UNDERSTAND THAT THE PRIMARY INTENTION OF THE 1977

AMENDMENTS WAS TO PROVIDE TRUST FUND SOLVENCY -- NOT BENEFIT INEQUITY. THE FOLLOWING QUOTE FROM THE GAO REPORT CLARIFIES THIS POINT: "DURING THE DEBATE ON THE 1977 AMENDMENTS, IT WAS GENERALLY ANTICIPATED THAT THE PHASE-IN WOULD PREVENT A SIGNIFICANT DROP IN THE BENEFIT LEVELS OF RETIREES IN THE TRANSITION PERIOD" (PG. 40). "THIS OBJECTIVE (DECOUPLING OF BENEFICIARIES FROM THE OLD LAW TO THE NEW LAW) WAS ACCOMPLISHED, THOUGH SOMEWHAT MORE ABRUPTLY THAN EXPECTED" (PG. 102). IN SPITE OF OTHER SHORTCOMINGS, THE GAO REPORT DOES DOCUMENT THE SEVERITY AND THE UNEXPECTEDLY SEVERE DROP IN REPLACEMENT RATES AND I URGE THE SUBCOMMITTEE TO CAREFULLY EXAMINE THIS ASPECT OF THE PROBLEM WHEN YOU MOVE TOWARD A RESOLUTION.

THE NOTCH ISSUE SYMBOLIZES ANOTHER PROBLEM REGARDING SOCIAL SECURITY; NAMELY, THE PUBLIC'S PERCEPTION OF THE STABILITY OF THE SOCIAL SECURITY TRUST FUNDS HAS BEEN SHAKEN -- AGAIN. IN PARTICULAR, WE SHOULD ASK THE QUESTION: HOW CAN WE ASK AMERICANS TO HAVE FAITH IN THE SOCIAL SECURITY SYSTEM WHEN WE LEGISLATE POLICY THAT CREATES TWO BENEFIT FORMULAS AND A RESULTING BENEFIT DISPARITY? THIS ONLY ADDS TO THE CRISIS IN CONFIDENCE MANY AMERICANS CURRENTLY HAVE IN THE SOCIAL SECURITY SYSTEM.

ANOTHER PROBLEM SURROUNDING THE NOTCH IS THAT EARNINGS OF NOTCH BENEFICIARIES WHO CONTRIBUTED TO THE SOCIAL SECURITY SYSTEM AFTER AGE 61 WERE NOT INCLUDED IN THEIR BENEFIT FORMULAS. IN MY OPINION, THIS IS A GRIEVOUS MISTAKE THAT DESERVES SPECIAL ATTENTION BY THE SUBCOMMITTEE. I MUST ADMIT THAT I WAS VERY DISMAYED AT THE WAY THE GAO REPORT DID NOT GIVE MORE ATTENTION TO THIS IMPORTANT FACET OF THE NOTCH PROBLEM. AT BEST, THE GAO REPORT PAID ONLY MINOR LIPSERVICE TO THIS PART OF THE BENEFIT CALCULATION. AGAIN, I HOPE THE SUBCOMMITTEE WILL CAREFULLY STUDY THIS DIMENSION AND MOVE TO COMPENSATE INJURED SENIOR CITIZENS.

MR. CHAIRMAN, FOR ALL OF THE REASONS I HAVE CITED, IT IS IMPORTANT TO MOVE NOW TO SOLVE THIS PROBLEM. IN PARTICULAR, I BELIEVE LEGISLATION ADDRESSING THE NOTCH ISSUE SHOULD INCORPORATE

THE FOLLOWING GOALS:

1. A METHOD OF REDUCING THE BENEFIT DIFFERENTIAL MUST BE DEVISED. AS I STATED EARLIER, THE ABRUPT AND SEVERE REDUCTIONS IN REPLACEMENT RATES WERE NOT INTENDED BY CONGRESS. CONSEQUENTLY, COMPENSATION SHOULD BE FORTHCOMING FOR SENIORS INJURED BY SEVERITY AND ABRUPTNESS OF THE NOTCH.

2. COMPENSATION SHOULD BE BASED UPON FAIRNESS AND THE GREATEST EQUITY POSSIBLE. IN PARTICULAR, THE DISPARITY CREATED BY A MULTI-FORMULA SYSTEM CALCULATING DIFFERENT BENEFITS FOR SIMILAR CONTRIBUTOR HISTORIES IS INHERENTLY UNFAIR AND SHOULD BE ALTERED. THIS IS THE ONLY WAY THE CONGRESS CAN ENCOURAGE FAITH AND CONFIDENCE IN THE SOCIAL SECURITY SYSTEM.

3. COMPENSATION SHOULD BE MADE FOR THOSE SENIORS WHO CONTRIBUTED TO THE SOCIAL SECURITY SYSTEM AFTER AGE 61 AND DID NOT HAVE THIS CONTRIBUTION INCLUDED IN THEIR BENEFIT CALCULATIONS. THIS IS THE CLEAREST EXAMPLE OF INEQUITY AND INCONSISTENCY. AGAIN, IN ORDER TO REBUILD THE CONFIDENCE OF THE AMERICAN PEOPLE IN THE SOCIAL SECURITY SYSTEM AND DEMONSTRATE CONGRESSIONAL FAIRNESS, WE MUST CORRECT THIS INJUSTICE.

4. WE SHOULD TAKE INTO CAREFUL CONSIDERATION THE NEEDS OF LOW-INCOME BENEFICIARIES. THE GAO REPORT WAS INSENSITIVE TO THE FACT THAT MANY LOW-INCOME SENIORS NEED EVERY DOLLAR ENTITLED TO THEM. TO GLOSS OVER THIS IMPORTANT POINT IS TO NOT FEEL COMPASSION FOR THE LESS FORTUNATE IN OUR SOCIETY.

IN MY VIEW, LEGISLATION CONTAINING THESE GOALS WILL BE SUCCESSFUL.

MR. CHAIRMAN, IN CONCLUSION I WANT TO THANK THE SUBCOMMITTEE FOR TACKLING THIS THORNY ISSUE. I UNDERSTAND HOW DIFFICULT THE MANY ASPECTS OF THE NOTCH ARE, BUT WE MUST KEEP IN MIND THE GREATER CONCERNS SURROUNDING THE NOTCH. WE NEED TO BE SENSITIVE TO THE

WAY CONGRESSIONAL ACTIONS CAN HAVE DEVASTATING IMPACTS ON OUR FELLOW CITIZENS. IN ADDITION WE MUST REMIND OURSELVES THAT WE HAVE BEEN PLACED IN THIS GREAT BODY IN ORDER TO ADDRESS DIFFICULT ISSUES IN A MANNER THAT IS GOING TO BE FAIR, JUST, AND HUMANE. I APPLAUD YOUR EXAMINATION OF THIS ISSUE AND I AM CONFIDENT THAT YOU WILL MOVE TO SOLVE THE SOCIAL SECURITY NOTCH FOR ALL AMERICANS.

THANK YOU.

Chairman Jacobs. We thank you, Ms. Oakar, for your testimony. [Applause.]

The Chair observes six, I think, Members of the House who are scheduled witnesses, and the committee believes that it may be drawing toward leg-stretching time for everybody and maybe stomach-filling time for somebody.

So we are going to hear the six Members of Congress who are scheduled as witnesses, and then break for lunch. At that time we will announce what the period of time will be, 30, 40, 45 minutes.

So we'll begin with the Honorable Ed Roybal from California [applause] who is certainly one of our most distinguished colleagues in the Congress.

STATEMENT OF HON. EDWARD R. ROYBAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Roybal. Thank you, Mr. Chairman. I'd like to thank you and members of the committee for holding today what I believe to be the most important hearing that any committee of Congress is holding this year.

This hearing is important to millions of Americans throughout the country, and it is important because a committee of Congress finally decided to hear arguments, not only from Members of Congress, but from people coming from different parts of the United States. I commend you, Mr. Chairman, and members of your committee.

As you know, there are 156 cosponsors of H.R. 1917. There are millions of people who will be affected by whatever is done by this committee.

I can assure you that there wasn't a single one of those sponsors or a single person in the United States that believed that the GAO was in fact going to present a favorable report to your committee.

In fact, I don't see why the GAO took so long to finally submit the report in view of the fact that the report is so incomplete, it makes assumptions that are not true and that, in general, is designed as an antinotch report that has been submitted to the Congress of the United States.

But, in fairness to GAO, they do in fact admit certain things. Number 1, they say that the 1977 amendments did reduce benefits for those who were born between 1917 and 1921. That, of course, is something we all knew, and it does in fact do that. But then they go on to say that the transitional guarantee was designed to protect those in that age bracket, but did not.

What actually happened is that the transition formula excluded the post-age 61 earnings in calculating benefits. But, as we read the report, Mr. Chairman, we find that very little is said by GAO with regard to that particular important subject matter. There's very little discussion on it. It is mentioned, but that is about as far as the report goes.

But there is one other very amazing thing that was finally concluded by GAO. They said that, in comparing the notch disparity with patterns of income assets and health status, retirees likely to experience larger disparities have—and listen to this, Mr. Chairman—on average, higher incomes and more assets.

Now, what could be further from the truth? We all know for a fact that 42 percent of the elderly can be categorized as poor or economically vulnerable. To imply that those retirees are well off is, to say the least, very inaccurate.

Mr. Chairman, I believe that there are certain things that one must talk about in making this particular presentation, and I'm not going to try to repeat all of the arguments that are already in my written statement. That has been accepted by the committee and will appear in the record.

But I think that we must do whatever we can to look at the GAO report very objectively, to look at those things that they say they analyze, but did not. For example, the GAO analysis is based on retired males and their wives who were married. Such analysis does not examine what happens to widows or to women who return to the work force after their childbearing years, only to have the years they worked beyond age 61 totally discounted in their benefit calculations.

I don't see why a group like GAO didn't look into that subject matter more thoroughly. I happen to have some accounting background, and it seems to me that any accountant, just out of curiosity, would want to know more about that specific subject matter because it is a very important segment of the disparity that has taken place. But, nevertheless, no real analysis was done.

The GAO analysis also did not look at the effect of the notch on minorities, many who have faced a lifetime of job and wage discriminations. Well, why not? Again, pointing to the fact that the GAO analysis was not in depth, again taking too much time, too many months to present a report that is not complete.

It is true that, for both these types of individuals, the wages they received post-age 61 are often the highest during their working years but, nevertheless, they were not counted.

One other item that I think GAO took time to try to elaborate on is whether proposed solutions would cost too much, and that we cannot afford it. But they have this to say. They said that alternatives to correct the notch vary from $20 billion to around $243 billion. Well, I don't know of an accountant yet who would make that kind of an analysis between $20 billion to around $243 billion.

It seems to me that GAO should have been more definite with regard to the cost based on various categories. For example, the bill that we have presented, H.R. 1917, has a cost estimate of $86.4 billion, but that includes retroactive pay. Now, that can be reduced, and substantially, so that these people can receive something at least.

Let us take, then, the figure that GAO has recommended as being that to be spent, between $20 to $243 billion.

I would like to recommend, Mr. Chairman, that you look at this issue, not on the basis of the GAO report, because it is very faulty, but on what is fair, on what can be done, and even take the $20 billion and try to make some adjustments so that the people who were born between 1917 and 1921 would not continue to be the goats of the Social Security system.

That is exactly the situation at the present time. And I sincerely hope if fair analysis is made by your committee and fairness prevails, that something can be done this year with regard to the notch.

I thank you, Mr. Chairman, for your attention. [Applause.]

[The statement of Mr. Roybal follows:]

Prepared Statement of
Representative Edward R. Roybal

Before the Subcommittee on Social Security
Committee on Ways and Means

"Social Security Notch"

April 14, 1988

Mr. Chairman and Members of the Subcommittee, thank you for giving me the opportunity to present my views on the disparities of the notch in Social Security benefits for those born between 1917 and 1921. I am delighted that the Subcommittee on Social Security of the Committee on Ways and Means is holding this hearing, and I commend your efforts to thoroughly examine this very complex and emotional issue.

The House Select Committee on Aging has held eight hearings over the past four years on this inequity, and has produced an extensive record on the effect of the notch on a variety of individuals. While it is clear that the 1977 Social Security amendments were necessary to correct an over-indexing problem which resulted from the 1972 amendments, testimony obtained during these hearings revealed that the reductions in benefits from one year to the next were in many cases far sharper than the Congress or the Social Security Administration originally intended.

For example, during a 1984 hearing in Iowa, Ms. Darlene Frazeur testified that her benefits were reduced by $160.00 a month simply because she was born in February 1917 instead of December 1916. At another 1984 hearing, Ms. Florence Kinkella, who was born in 1919, testified that she receives 22 percent less in benefits than her husband, who was born in 1914, even though she paid Social Security taxes on 23 percent more earnings. Numerous other examples of the notch inequity have been brought to the attention of the Committee as well. In short, instead of a transition which was intended to reduce benefits over 5 years by 6-10 percent, benefits for a 65 year-old born in 1917 with average earnings were often reduced by 10 percent or more. Some retirees even testified that benefits were altered by 20% from what they would have been had they been born a few months earlier.

Other legislative analyses of this issue, such as the ones conducted by the American Enterprise Institute (AEI) and the General Accounting Office (GAO), have extensively examined the scope of the notch, as well as proposals to resolve this issue. Consequently, for those who believe more study is needed, I urge them to carefully review the hearings of the House Aging Committee, as well as these reports.

Background History On The Notch

The notch was created by the 1977 Amendments which were designed to rectify the problems in the over-indexed 1972 benefit formula. The 1972 Social Security Amendments had the effect of double-indexing benefits for inflation. Any benefit increase given to existing recipients through a cost of living increase was also given to future beneficiaries. This was done despite the fact that their benefits would have reflected inflation through the rising wages they had received. Consequently, if the 1977 changes had not been made, people retiring after the year 2000 would have received more in Social Security benefits than their pre-retirement earnings. This was an untenable situation.

The result of the 1972 Social Security Amendments was that replacement rates increased substantially more than Congress ever intended. In fact, even at the time of enactment of the 1977 Social Security amendments, the Social Security Administration (SSA) anticipated lower replacement rates than were finally produced. According to SSA, replacement rates for a 65 year old career average earner retiring in 1980 (born in 1915) were anticipated, at the time of enactment of the 1977 Amendments, to be 45.9%. However, the actual replacement rate is 51.1%. For an average career earner born in 1916 who retires at age 65, SSA anticipated a replacement rate of 46.2%. However, the actual replacement rate ended up being 54.4%.

To address this situation, the 1977 amendments were intended to produce replacement rates which would not change over time. For maximum wage earners these rates are 25%; for average earners 42%; and for low earners approximately 50%. The July, 1981 SSA acturial study stated that, "because the 1977 Amendments provide for a gradual decrease in, and then a leveling off of replacement rates so as to offset the unintended increases caused by the previous-law methods, the benefits for workers differing slightly (by as little as one day), can vary considerably, producing the situation commonly known as the "notch."

The 1977 Amendments thus were designed to rectify the problem of the 1972 law, a new formula was designed with the purpose of reducing and stabilizing the increase in benefits for all persons eligible for retirement after 1978. According to the March 1978 Social Security Bulletin, the 1977 Amendments were enacted: "In order to stabilize rates in the future, at levels 5 percent below the levels projected for 1979 under the earlier law." The 1977 Amendments introduced a new benefit formula for all individuals retiring at age 62 after 1978. In addition, to protect people from abrupt reductions in benefits, a transition formula was also established to phase-in the anticipated benefit reductions. Benefits were calculated under the new formula and the transitional formula with beneficiaries receiving the higher of the two benefits.

Under the new formula, benefits are determined by computing the average indexed monthly earnings (AIME). The AIME is a dollar amount which represents the average monthly earnings adjusted for changes in average wages in the economy which was received by the worker during his covered employment. The monthly benefit amount is then computed by using a benefit formula which incorporates the AIME.

The transitional formula was a modified version of the 1972 benefit formula. Under this formula, benefits are determined by computing the Average Monthly Wage (AMW). The AMW is a dollar figure which represents the total earnings of the worker over the years divided by the number of months in those years. The monthly benefit amount is then determined through reference to benefit tables which are updated and published annually. The transitional formula would be used for people reaching age 62 between 1979 and 1983 (born in 1917 and 1921). Therefore, the people born between 1917 and 1921 were not specifically targeted for reductions in their benefits. They were simply the first group affected. According to the March 1978 Social Security Bulletin, this group was supposed to be protected from abrupt reductions in benefits. "To protect workers nearing retirement when decoupling is implemented, an individual who reaches age 62 after 1978 and before 1984 is guaranteed a retirement benefit no lower than the amount he would have received under the law as of December of 1978."

Why The Transitional Formula Did Not Work Well

However, the transitional formula did not work well. According to the American Enterprise Institue legislative analysis of the notch: "The transition to the new system did not work well because some people received substantially lower benefits than they would have received if they had been able to use the old rules. It was recongnized in 1977 that initially some people would get more from the new rules and some would be largely unaffected, but that people would get markedly lower benefits was not expected. The transitional guarantee was supposed to guard against such sharp reductions, at least in principle."

As early as April 1979, experts were discussing the problems associated with the 1977 Amendments. Robert Myers, the former chief actuary of the SSA, wrote an unofficial memorandum concerning alternative solutions to the notch problem for those attainining age 62 in 1979 and after. According to Mr. Myers, "The 1977 Amendments attempted to have some phasing-in of the new decoupled method (which was intentionally established at a lower level (about 5%) so as to make up for the faulty operation of the benefit computation procedure in the past few years)."

One of the primary reasons that the transition did not work as planned was that the transitional guarantee formula excluded post-age 61 earnings in calculating benefits. Mr. Myers' memo discusses this exclusion of post-age 61 earnings in the transitional benefit computation. "The latter restriction is a very "powerful" one and causes the alternative computation procedure (sometimes referred to as the "transitional minimum guarantee") to be phased out rapidly; in fact, it is likely to be generally effective only for retirements in 1979 and 1980." In addition to the post age 61 earnings exclusion, Congress did not anticipate the double digit inflation of the late 1970's and early 1980's. Therefore, instead of a transition which was intended to reduce benefits over 5 years by 6-10 percent, benefit dollar reductions for a 65-year old retiree, born in 1917 with average earnings, were 10 percent. In subsequent years, discrepancies of 20 percent or more have been noted.

The transitional gurantee was supposed to minimize the reductions for those born between 1917 and 1921, but the limitations required with its use did not apply to people born before 1916, and did not guard against the excessive benefit growth for those recipients.

Several years ago, SSA realized the problems associated with the 1977 Amendments. According to an SSA actuarial study published in July 1981: "For those attaining age 62 in December 1978, however, benefits are significantly larger than for those attaining age 62 in the following month (age 62 in January 1979). For retirement at age 65 in early 1982, this "notch" in benefits is about $88 per month in the average earning case ($623.70 minus $535.40) and about $111 per month in the maximum-earnings case ($789.90 minus $679.30)." I do not believe that Congress ever intended such a drastic cut in benefits over such a short period of time.

Proposed Solutions To The Notch

I firmly believe that the Congress must address the flaws which resulted from the notch disparity for three important reasons. First, it is a matter of fairness. While it is true that it was crucial for the 1977 amendments to eliminate overindexing and stabilize the replacement rates, I do not believe the Congress ever intended such a drastic cut in benefits to occur for so many retirees over such a short period of time. When people work side by side throughout their careers, and upon retirement learn that the difference between their monthly Social Security benefits will be around 20 percent simply because of the year in which they were born, serious concerns are understandably raised about the fairness of the nation's social insurance program.

Secondly, I am greatly concerned about the effects of this inequity on public confidence in the Social Security system. Over the last decade, the confidence of many Americans in the Social Security system has been weakened by reports of financing crises and political stalemate. Many older Americans, as well as those in the baby boom cohort whose parents were born in the notch years, have had their confidence shaken by the manner in which the benefit alterations were made. If we really want to restore young people's confidence in Social Security, we should restore some of the benefits to individuals who have helped to make Social Security into a successful and viable program.

Third, I am greatly troubled by the effects of this disparity on the economic well-being of some of the most vulnerable of our citizens. Presently, 42 percent - or some 11.5 million elderly - can be categorized as poor or economically vulnerable. For an elderly person living alone in 1987, economic vulnerability was defined as an income of $10,312 per year - or about $198 a week. For an elderly couple, the figure is $13,006 per year or $250 a week. Social Security accounts for at least 80 percent of total family income in more than half of all the poor families headed by an elderly person. For these individuals, even slight reductions in Social Security benefits can have a severe impact on their health and well-being.

Testimony before my Aging Committee, as well as GAO's recent report on the notch, indicate that one of the primary reasons why the transition formula did not work as well as planned was that it excluded post age 61 earnings in calculating benefits. The testimony further indicates that this restriction often has a powerful impact on women who left the work force during childrearing years and then returned to the job market in later life. I also have serious concerns about what this exclusion often means for minorities who have faced a lifetime of employment and salary discrimination and are unable to have their post age 61 earnings counted in the benefit calculation. For many of these economically vulnerable individuals, post 61 earnings are often the highest incomes they have had during their working years.

Therefore, the goal of most supporters of a solution to the notch, including my legislation - H.R. 1917 - has always been to press for a resolution to the problem which will restore faith in the system and provide maximum protection to current and future beneficiaries without undoing the reforms of 1977.

H.R. 1917, introduced on April 2, 1987, currently has 156 bipartisan cosponsors. The bill computes benefits under a new transitional formula which protects beneficiaries from abrupt reductions in benefits and provides retroactive benefits. H.R. 1917 extends the transition from five years to ten (that is, for workers born in 1917-1926, rather than 1917-1921). All annual automatic benefit increases are included in the computation. The present law transition does not include automatic increases after 1978 and before age 62, the first year of eligibility for Social Security benefits. All earnings would be included in the new computation.

The present transition excludes earnings after age 61. The bill computes benefits under the old 1972 formula and reduces them by 3 percent. In addition, benefits are reduced an additional 3 percent for each year of birth after 1916. Under the bill, individuals will have their benefits re-calculated, and will receive retroactive benefits in the first year of enactment, and will continue to receive a higher monthly benefit thereafter. The bill is applicable to retired workers, dependents, and widows. H.R. 1917 will increase benefits for an average worker born between 1917-1921 and retiring at age 65 by $49 to $132 a month, and will reduce replacement rates to 41.5% for anyone retiring at age 65 who was born in 1926 or after. The Social Security actuaries estimate the cost of this bill to be $86 billion over 10 years, which includes about $10 billion in retroactive benefits.

There are currently many proposals to resolve the notch inequity. Robert Myers suggested two such proposals in 1979. "One solution of this notch problem (and one which I have advocated previously) is to bring up the benefit level for those attaining age 62 in 1979 and after who retire at ages beyond 62, by making earnings at ages 62 and over usable in the transition-minimum gurantee procedure. In other words, the notch (or precipice) would be diminished by pulling up the lower end." According to Myers, another solution to the notch problem would be: "to approach it from the other direction — namely to reduce the benefits accruing for future earnings for those attaining age 62 before 1979 (ie. to do so only prospectively and thus not take away benefits rights which have been acquired to date)." This solution would also solve the notch without involving any increase in the cost of the Social Security program. Mr. Myers suggested enactment of this second solution in 1979 "in order to solve the notch problem to a much greater extent."

Unfortunately, Mr. Myers' examination of the notch and his solutions were never examined by the Congress. Instead of reviewing the effect of the 1977 Amendments in 1979, when Congress should have, we have waited until now, 11 years after the enactment. I firmly believe that Congress must now seriously examine and consider the effects of the legislation, and seek equity and fairness for those who have been hurt.

Over the last decade, Americans' confidence in Social Security has been shaken by reports of financing crises and political stalemate. Their fear and frustration concerning Social Security is understandable. Many baby boomers see that their parents, who were born in the notch years, are losing confidence in the Social Security system. If we really want to restore young people's confidence in Social Security, we should restore some of the benefits to individuals who have helped to make Social Security into a successful and viable insurance program. I urge my colleagues to weigh not only the cost of correcting this disparity, but also the costs associated with not addressing this issue, including the loss of public confidence in the Social Security system and the problems associated with sharply reducing benefits to individuals who are among the most economically vulnerable of our citizens.

Chairman JACOBS. Thank you, Mr. Roybal.
Congressman Olin.

STATEMENT OF HON. JIM OLIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. OLIN. Thank you, Mr. Chairman. I appreciate your calling on me next, and I hope the rest of the panel will allow me to continue. I've got an appointment that I've got to make here in a few minutes.

Mr. Chairman, I've submitted written testimony. I hope that will be made part of the record. And I would just like to make a short statement on this subject.

I was elected to serve in Congress to start in the year 1983. That happens to be the year that Dear Abby had her article in the newspapers with regard to the notch. I don't think I had been serving here for more than a week before I began to get questions from my constituents on that subject.

I took the matter very seriously, as all Members of Congress did and still do, and I talked to people who were in the Ways and Means Committee, in 1977, when the corrective action that brought rise to the notch was taken. I discussed the alternatives with those gentlemen and ladies that were considered at that time.

I pretty much came to the conclusion that even though we had a situation that needed to be corrected, the correcting of it was difficult, it couldn't be corrected and still can't be corrected without having some inequities that someone sees. But I thought that the solution was probably about as good a solution as could be found.

I'm a member of the class of 1920. Having been born in 1920, I'm in the notch years myself. I'm quite interested in it. But I really think, Mr. Chairman, that those of us that are in that age group, 1917 to 1921, we're all now over 65 years old. Those of us that are no longer working are receiving our Social Security pensions.

I've made it a point to explain to my constituents over these last five and a half years what happened here, that it was the intention of the Social Security system to pay people about 42 percent of their final earnings. And during the period of high inflation, we got out of whack when we began to factor in a cost of living adjustment. We ended up adjusting too much. And by 1977 or 1978, we were giving out pensions that were about 30 percent too high. We got up to 55 percent of final earnings, without a whack, and it was draining the fund. It had to be corrected.

I think the method of correcting it was not too bad, and we did it over 5 years—it was gradual. And what it meant was that the people from 1972, when this started, up to 1977, got more Social Security pension than the system ever intended to pay. The notch people, from 1979 to 1983, they also, as they retired, got a higher pension than was originally intended. Now we're back on the track with the 42 percent a year.

All the people that feel aggrieved, I believe, maybe with a few exceptions, but the lion's share, received a higher Social Security pension than the system intended to pay. Therefore, I think those people should feel good about that.

Now, the people that go through life trying to find someone that had a better break than they had in some respect end up being very unhappy because there's no way that life doesn't treat people exactly equitably, and this situation can't. There are inequities.

I believe that the committee, it's good that you're having the hearing. I think that you ought to analyze the possible other actions carefully. I think that you'll find that any action to correct what is called an inequity here will cost somewhere between $20 billion and $80 billion. It will bring new people into the controversy. It will create new inequities and more dissatisfaction.

My advice to the committee is to give it careful consideration and then decide to put the subject to bed. We're almost through with the subject. I get very few complaints any more.

I've been talking to people, thousands of people for 5½ years, and people understand what I tell them and they believe that I'm right, and they're buying the story as they should, and they're not demanding additional payments from the Government. They're happy with what they've got.

And I think we'd be far better off as a Congress to put this subject to bed. The inequities that are in the picture are there. They are not going to be corrected. All we can do is cause new ones.

So I urge the committee, after consideration, to put this thing to bed, don't report out any new bills, let it die.

[The statement of Mr. Olin follows:]

STATEMENT OF CONGRESSMAN JIM OLIN

BEFORE THE WAYS AND MEANS SUBCOMMITTEE ON SOCIAL SECURITY

APRIL 14, 1988

Mr. Chairman, thank you for holding hearings on the General Accounting Office's study of Social Security "notch". I was born in 1920 and, like millions of other people, am directly affected by the notch. I am testifying before this committee today to oppose any attempt to change the notch.

As you know, the notch resulted from a flaw in 1972 legislation designed to keep Social Security benefits at 42 percent of each individual's wages during their last year of work. This mistake raised Social Security pensions and indexed Social Security to the Consumer Price Index, which resulted in a double cost-of-living adjustment (COLA).

The effect of this legislation was to increase Social Security benefits for people turning age 62 between 1974 and 1978. By 1978, when people born in 1916 turned 62, the Social Security benefit had increased from 42 percent of an individual's income in their last working year to 55 percent of their wages in that year.

The additional benefits being paid to people born between 1912 and 1916 started to place a drain on the Social Security Trust Fund. The most straightforward way to solve this problem would have been to take away the extra benefits given to retirees born between 1912 and 1916. Instead, Congress chose a five-year period during which Social Security benefits would be gradually lowered back to 42 percent of average wages beginning with people turning age 62 in 1979. People born between 1917 and 1921 fall into this correction period, which is known as the "notch".

Many people born between 1917 and 1921 feel they are being cheated. Yet, the only injustice that "notch babies" are suffering is that they are not sharing in the windfall being paid to people born between 1912 and 1916. While people born between 1917 and 1921 receive less than people born a few years earlier, they are receiving a larger percent of their last working year's income than people born in 1922 and after.

Legislation designed to eliminate the notch could cost the Social Security Trust Fund anywhere from $20 billion for legislation maintaining a five-year transition period to $82.4 billion for legislation creating a 10-year transition period. Many people supporting changes in the notch point out that the Social Security Trust Fund will have a surplus of $697 billion in 1996. This surplus is a result of the Social Security Amendments of 1983; it is designed to ensure that Social Security pays benefits for the "baby boom" generation when fewer people will be contributing to the system and more people will be drawing benefits.

Enacting legislation to change the notch will bring more people into the controversy and make it more difficult to solve. It also will reduce the surplus in the Social Security Trust Fund, making it difficult to pay benefits to people in the "baby boom" generation.

A number of lobbying groups, including Dear Abby and the National Committee to Preserve Social Security and Medicare, have been urging Congress to change the notch. I am sure these people are well-intentioned. However, the notch was the result of Congress' attempt to correct a mistake made in 1972; unfortunately, any attempt to correct this error will create inequities.

Mr. Chairman, in 1977 Congress addressed the notch issue in the fairest way possible. I do not think that we should revisit this issue. People born in the "notch" years should take solace in the fact that they are receiving a larger benefit than Congress intended and more than people who retire in later years.

Thank you for your attention to this matter.

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Chairman JACOBS. Mr. Bilirakis.

STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. BILIRAKIS. Thank you, Mr. Chairman.

I am Mike Bilirakis, and I proudly represent much of the Tampa Bay area of Florida; I very proudly share that area with Mr. Gibbons of Tampa.

I have long awaited the moment when a legislative body of the House of Representatives would examine the Social Security notch issue. I commend you for holding the hearing, Mr. Chairman, and thank you for the opportunity to be heard before your distinguished subcommittee.

Mr. Chairman, I like many of my colleagues, have long been frustrated by the issue before us today. Ever since my first election to Congress in 1982, it has been the subject of the majority of the correspondence that I receive from my elderly constituents.

Granted, I represent a district that holds the third highest concentration of senior citizens in the country. However, I don't think that my experience in the exception. Rather, I think that most Members of the House, like me, continue to be overwhelmed with expressions of concern and opposition to the notch period in the Social Security system from their constituents.

Mr. Chairman, can you imagine anyone having to choose between, say, food or prescription medication for the month because he doesn't have enough money to pay for both? Sad as this may be to comprehend, this is unfortunately the scenario that many senior citizens are confronted with each month.

Isn't it true that almost everyone has a tough time making ends meet financially nowadays, we might ask? While this may be true, the unfortunate fact, Mr. Chairman, is that we, as a body, are collectively responsible for the senior citizens of our district living without food or medication for a day or week during each month through our inaction in resolving the discriminatory notch period in the Social Security system.

This notch gap, which resulted from a solution having backfired, is the cause of thousands of senior citizens across the country receiving $100 or more less in Social Security benefits than others with similar work histories due to no other reason than the year in which they happen to have been born.

While $100 may not seem like much today, it is a tremendous amount to those who try to live on, say, $500 to $600 a month.

In addition to the fact that the amount itself would assist thousands of people to lift themselves out of poverty, however, the Social Security notch issue also involves a principle. It, Mr. Chairman, involves no less than fair and equitable treatment of our citizens by our Government.

I am sure that all of my colleagues would agree that our Social Security system should not discriminate against anyone. This is a subject that I feel very strongly about, for while discrimination against anyone in any form is bad enough, it is doubly intolerable when we are talking about discriminating against the same people, as was said here earlier, who served this country through depressions, recessions, and World War II.

Isn't it amazing, Mr. Chairman, and members of the committee, how we, the Congress, have the knack of picking on just that segment of the American people least deserving of unfair treatment, those who held our republic together during those tough years of the 1930s and World War II.

Mr. Chairman, in the 100th Congress I proudly cosponsored and signed a discharge petition to move H.R. 1917, Chairman Roybal's notch correction bill.

I have also introduced my legislation, known as H.R. 1026. It attempts to lessen large benefit disparities between groups of new recipients, by requiring the Secretary of HHS to make a projection before October of each year of the replacement rates for hypothetical new recipients becoming entitled the following year, who over their working years steadily earned minimum, average and maximum wages.

The Secretary is then required to prescribe a benefit formula for the following year's new eligibles that would keep the replacement rates for those hypothetical cases within 5 percentage points of the replacement rates of similarly situated workers who became newly entitled in 1979.

It probably sounds more complex than it is, but basically, the bottom line is, it is intended to limit the disparities within 5 percentage points.

Mr. Chairman, the question of which notch correction bill is enacted doesn't matter to me. What does, however, matter to me is that the notch disparity be rectified as well as we possibly can do so.

Mr. Chairman, we must, however, also keep in mind those born after the notch years. We can't forget those people. It should be rectified so that none of our citizens are treated unfairly at the benefit of others.

I am hoping that today's hearings, as well as the recent hearings in the Senate, are an indication of the positive action yet to come.

Let this hearing, Mr. Chairman, result in the enactment of the necessary legislation to restore due benefits to our seniors.

Thank you very much, Mr. Chairman. [Applause.]

[The statement of Mr. Bilirakis follows:]

SOCIAL SECURITY SUBCOMMITTEE
HOUSE WAYS AND MEANS COMMITTEE
CONGRESSMAN MICHAEL BILIRAKIS
APRIL 14, 1988

MR. CHAIRMAN, IT IS INDEED AN HONOR AND A PLEASURE FOR ME TO SIT BEFORE YOU TODAY. I HAVE LONG AWAITED THE MOMENT WHEN A LEGISLATIVE BODY OF THE HOUSE OF REPRESENTATIVES WOULD EXAMINE THE SOCIAL SECURITY "NOTCH" ISSUE. I COMMEND YOU FOR HOLDING THE HEARING, MR. CHAIRMAN, AND THANK YOU FOR THE OPPORTUNITY TO BE HEARD BEFORE YOUR DISTINGUISHED SUBCOMMITTEE.

MR. CHAIRMAN, I, LIKE MANY OF MY COLLEAGUES, HAVE LONG BEEN FRUSTRATED BY THE ISSUE BEFORE US TODAY. EVER SINCE MY FIRST ELECTION TO CONGRESS IN 1982, IT HAS BEEN THE SUBJECT OF THE MAJORITY OF THE CORRESPONDENCE I RECEIVE FROM MY ELDERLY CONSTITUENTS.

GRANTED, I REPRESENT A DISTRICT THAT HOLDS THE THIRD-HIGHEST CONCENTRATION OF SENIOR CITIZENS IN THE COUNTRY. HOWEVER, I DO NOT THINK THAT MY EXPERIENCE IS THE EXCEPTION. RATHER, I THINK THAT MOST MEMBERS OF THE HOUSE, LIKE ME, CONTINUE TO BE OVERWHELMED WITH EXPRESSIONS OF CONCERN, AND OPPOSITION, TO THE "NOTCH" PERIOD IN THE SOCIAL SECURITY SYSTEM FROM THEIR CONSTITUENTS.

MR. CHAIRMAN, CAN YOU IMAGINE ANYONE HAVING TO CHOOSE BETWEEN, SAY, FOOD OR PRESCRIPTION MEDICATION FOR THE MONTH BECAUSE HE DOESN'T HAVE ENOUGH MONEY TO PAY FOR BOTH? SAD AS THIS MAY BE TO COMPREHEND, THIS IS, UNFORTUNATELY, THE SCENARIO THAT MANY SENIOR CITIZENS ARE CONFRONTED WITH EACH MONTH.

ISN'T IT TRUE THAT ALMOST EVERYONE HAS A TOUGH TIME MAKING ENDS MEET FINANCIALLY NOWADAYS, YOU MIGHT ASK? WHILE THIS MAY BE TRUE, THE UNFORTUNATE FACT, MR. CHAIRMAN, IS THAT WE, AS A BODY, ARE COLLECTIVELY RESPONSIBLE FOR THE SENIOR CITIZENS OF OUR DISTRICTS LIVING WITHOUT FOOD OR MEDICATION FOR A DAY, OR A WEEK, DURING EACH MONTH THROUGH OUR INACTION IN RESOLVING THE DISCRIMINATORY "NOTCH" PERIOD IN THE SOCIAL SECURITY SYSTEM.

THIS "NOTCH" GAP, WHICH RESULTED FROM A "SOLUTION" HAVING BACKFIRED, IS THE CAUSE OF THOUSANDS OF SENIOR CITIZENS ACROSS

THE COUNTRY RECEIVING $100 OR MORE A MONTH LESS IN SOCIAL SECURITY BENEFITS THAN OTHERS WITH SIMILAR WORK HISTORIES DUE TO NO OTHER REASON THAN THE YEAR IN WHICH THEY HAPPEN TO HAVE BEEN BORN.

WHILE $100 MAY NOT SEEM LIKE MUCH TODAY, IT IS A TREMENDOUS AMOUNT TO THOSE WHO TRY TO LIVE ON, SAY, $500-$600 A MONTH.

IN ADDITION TO THE FACT THAT THE AMOUNT ITSELF WOULD ASSIST THOUSANDS OF PEOPLE TO LIFT THEMSELVES OUT OF POVERTY, HOWEVER, THE SOCIAL SECURITY "NOTCH" ISSUE ALSO INVOLVES A PRINCIPLE. IT, MR. CHAIRMAN, INVOLVES NO LESS THAN FAIR AND EQUITABLE TREATMENT OF OUR CITIZENS BY OUR GOVERNMENT.

I'M SURE THAT ALL MY COLLEAGUES WILL AGREE THAT OUR SOCIAL SECURITY SYSTEM SHOULD NOT DISCRIMINATE AGAINST ANYONE. THIS IS A SUBJECT THAT I FEEL VERY STRONGLY ABOUT FOR, WHILE DISCRIMINATION AGAINST ANYONE IN ANY FORM IS BAD ENOUGH, IT IS DOUBLY INTOLERABLE WHEN WE ARE TALKING ABOUT DISCRIMINATION AGAINST THE PEOPLE WHO HAVE SERVED THIS COUNTRY THROUGH DEPRESSIONS, RECESSIONS, AND WORLD WAR II.

EVER SINCE MY FIRST ELECTION TO CONGRESS IN 1982, I HAVE TRIED TO HELP. I HAVE INRODUCED "NOTCH" CORRECTION LEGISLATION IN EVERY CONGRESS I HAVE SERVED IN, I HAVE JOINED AND ADDRESSED "NOTCH" RALLIES, I HAVE TESTIFIED BEFORE THE SELECT COMMITTEE ON AGING, I HAVE DONE NUMEROUS ONE-MINUTE STATEMENTS ON THE FLOOR OF THE HOUSE, I HAVE CORRESPONDED WITH THE COMMITTEE OF JURISDICTION URGING HEARINGS ON THE ISSUE, I HAVE BECOME A MEMBER OF THE "NOTCH" COALITION, AND HAVE COSPONSORED AND SIGNED THE DISCHARGE PETITION TO MOVE H.R. 1917--CHAIRMAN ROYBAL'S "NOTCH" CORRECTION BILL.

IN THE 100TH CONGRESS, MY BILL IS KNOWN AS H.R. 1026. IT ATTEMPTS TO LESSEN LARGE BENEFIT DISPARITIES BETWEEN GROUPS OF NEW RECIPIENTS BY REQUIRING THE SECRETARY OF HEALTH AND HUMAN SERVICES (HHS) TO MAKE A PROJECTION, BEFORE OCTOBER OF EACH YEAR, OF THE REPLACEMENT RATES FOR HYPOTHETICAL NEW RECIPIENTS BECOMING ENTITLED THE FOLLOWING YEAR WHO, OVER THEIR WORKING YEARS, STEADILY EARNED MINIMUM, AVERAGE, AND MAXIMUM WAGES.

THE SECRETARY IS THEN REQUIRED TO PRESCRIBE A BENEFIT FORMULA FOR THE FOLLOWING YEAR'S NEW ELIGIBLES THAT WOULD KEEP THE REPLACEMENT RATES FOR THOSE HYPOTHETICAL CASES WITHIN FIVE (5) PERCENTAGE POINTS OF THE REPLACEMENT RATES OF SIMILARLY SITUATED WORKERS WHO BECAME NEWLY ENTITLED IN 1979.

MR. CHAIRMAN, THE QUESTION OF WHICH "NOTCH" CORRECTION BILL IS ENACTED DOES NOT MATTER TO ME. WHAT DOES, HOWEVER, MATTER TO ME, MR. CHAIRMAN, IS THAT THE "NOTCH" DISPARITY BE RECTIFIED SO THAT NONE OF OUR CITIZENS ARE TREATED UNFAIRLY AT THE BENEFIT OF OTHERS.

I AM HOPEFUL THAT TODAY'S HEARING, AS WELL AS THE RECENT HEARINGS IN THE SENATE, ARE AN INDICATION OF THE POSITIVE ACTION YET TO COME. LET THIS HEARING, MR. CHAIRMAN, RESULT IN THE ENACTMENT OF THE NECESSARY LEGISLATION TO RESTORE DUE BENEFITS TO OUR SENIOR CITIZENS.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF HON. SHERWOOD L. BOEHLERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. BOEHLERT. Thank you, Mr. Chairman.

Let me start at the outset with an observation. My mother is a notch baby, and with her understanding and support, I present this testimony today.

I will read excerpts from it, and I assume my full statement will be permitted to be in the record in its entirety.

Mr. Chairman, I appreciate the opportunity to speak out on the notch issue, or perhaps I should say, the notch nonissue.

In the 21 years that I have been privileged to work in Congress, 16 as a staff member, and now five and counting as a representative from the 25th District of New York, I have never seen an issue that has generated such confusion with the public, and especially, the elderly.

As a matter of fact, I think really this issue offers the biggest opportunity for congressional misdeeds. It is an ill-advised action.

Mr. Chairman, the notch has been run through the ringer with promotions and studies and rallies on its behalf. Yet it all comes down to one basic precept: those who were born between the years 1917 and 1921 are being misinformed by a host of unreliable sources that they are not receiving the full amount of their Social Security benefits.

They are being told that Congress conveniently sacrificed the full benefits of those born in these years to achieve a quick, cheap fix.

These statements couldn't be further from the truth. The 1977 law, which supposedly created the notch, did not affect those born before 1917, because Congress considered unfair to take away the benefits of those who had already become dependent on them. And I think Congress acted with prudence.

The 1977 law was important. If benefits had not been returned to their intended levels, the solvency of the Social Security fund could have been seriously jeopardized.

Without enactment of this legislation, benefit levels eventually would have been higher than the person's former salary.

It is also interesting to note that according to the Social Security Administration, those born between 1917 and 1921 actually have some advantage. Their benefits are computed in two different ways. First, a modified form of the old method; and second, the new indexing method.

Whichever formula creates the higher benefit is the one used to pay that person. Persons born after 1921 will have their benefits figured only by the new indexing method.

Although a few bills have been introduced which would reimburse notch babies, none of these bills is realistic in their approach to solving the perceived problem.

One of these bills, if enacted, would cost the Federal Government nearly $360 billion, nearly one-third of the yearly Federal budget.

In addition to these arguments against notch reform, the General Accounting Office has now released its long awaited report on the nonissue. And what were its findings?

Workers retiring after 1921 received Social Security payments of slightly more than 41 percent of their earnings. The so-called notch babies, who are being told they are being treated so unjustly, receive a 48.7 percent return.

It reminds me of the infamous slogan of the 1984 campaign: Where's the beef?

No one is being cheated out of their benefits right now, and that is important for all of us to remember. But if anyone of the current notch bills comes to fruition, it will drain the balance of the Social Security trust fund, and that would be wrong.

We need to guarantee the Fund's solvency, because if we don't, millions of future retirees, our children and grandchildren, might never see the benefits to which they are entitled.

That, Mr. Chairman, would not only be cheating; it would be a crime.

I want to commend you, Mr. Chairman, and the members of this committee for holding this hearing. It is a profile in courage.

The easy thing to do would be to yield to those thousands and thousands of postcards and letters that come in and say, "do something about the notch." If you do act on these ill-advised requests, you place the fund in jeopardy, and do not do credit to this great institution in which we are privileged to serve. [Applause.]

[The statement of Mr. Boehlert follows:]

HON. SHERWOOD BOEHLERT (R-NY)
Subcommittee on Social Security
Hearing on the "Notch Effect"
4/14/88

Mr. Chairman, I appreciate the opportunity to speak out today on the notch issue--or perhaps, I should say, the notch non-issue. In the twenty-one years that I have worked in Congress--sixteen as a staff member and now five and counting as a representative from the 25th District of New York, I have never seen an issue that has generated such confusion with the public, and especially, the elderly.

It really irks me when I read the misinformation distributed to senior citizens on behalf of such a potentially devastating idea. Yet each year, we in Congress receive thousands of letters, postcards and petitions from Seniors asking us to cosponsor notch legislation. I am especially alarmed because I have always been a strong advocate of Social Security, Medicare and all the genuine programs that assist our older Americans and allow them to hold their head up high with dignity.

Ever since my first day in Congress, I've done everything possible to preserve Social Security and to protect its recipients:

I supported the Social Security Amendments of 1983, which ensured the solvency of the Social Security Trust Funds

That solvency could be easily compromised with the passage of "notch" legislation.

I voted for the proposal last year which now guarantees Social Security recipients a COLA increase each year

A sensible raise that we might not otherwise be able to afford if a "notch" correction were enacted.

So when I receive messages from my constituents that criticize my record on Senior's issues because I haven't lent my support to notch reform, I get pretty frustrated.

The notch has been "run through the ringer" with promotion, studies and rallies on its behalf; yet it all comes down to one basic precept: those who were born between the years 1917-1921 are being misinformed by a host of unreliable sources that they are not receiving the full amount of their Social Security benefits. They're being told that Congress conveniently sacrificed the full benefits of those born between 1917 and 1921 to achieve a quick, cheap "fix". Both of these statements couldn't be further from the truth.

The 1977 law which supposedly created the notch did not affect those born before 1917 because Congress considered it unfair to take away the benefits of those who had already become dependent upon them. The 1977 law was important; if benefits had not been returned to their intended levels, the solvency of Social Security could have been jeopardized. Without enactment of this legislation, benefit levels eventually would have been higher than the person's former salary!

It's also interesting to note that according to the Social Security Administration, those born between 1917 and 1921 actually have some advantage. Their benefits are computed in two different ways: first, a modified form of the old method and second, the new indexing method. Whichever formula creates the higher benefit is the one used to pay that person. Persons born after 1921 will have their benefits figured only by the new indexing method.

Although a few bills have been introduced which would reimburse "notch" babies, none of these bills is realistic in their approach to solving the perceived problem. One of these bills, if enacted, would cost the Federal Government nearly $360 billion--nearly one third of this year's Federal Budget!

In addition to these arguments against notch reform, the General Accounting Office has now released its long-awaited report on the non-issue. And what were its findings? Workers retiring after 1921 receive Social Security payments of slightly more than 41 percent of their earnings. Notch babies, who are being told they're treated so unjustly, receive a 48.7 percent return. It reminds me of the famous slogan in the 1984 presidential campaign: Where's the Beef?

Another angle from which we might examine the subject is "who is promoting notch reform?" Not the American Association of Retired Persons. Not the National Council of Senior Citizens. Not the Social Security Administration. No, Mr. Chairman. Only one senior citizens "interest" group--and I use that term quite loosely--has attached itself to this issue: the National Committee to Preserve Social Security and Medicare.

Most of my colleagues are probably sick and tired of hearing from this group. So am I. But they deserve to be exposed at every opportunity. In its five years of existence, the National Committee has raised over 75 million from 4.5 million members through direct mail campaigns based on a hysterical and deceptive presentation of the facts. The group has been the target of numerous Congressional, federal agency, state and journalistic investigations because it claims to be something it isn't--a powerful lobbying force on Capitol Hill.

The National Committee is the force behind the millions of postcards and petitions Congressional offices receive each year to correct the "notch injustice", as they put it. This, Mr. Chairman, is the same organization that claimed to be an effective lobbying group on Capitol Hill when they had no registered lobbyist. This is the same group that told Seniors in 1983 that their benefits were being destroyed by a Congress and Administration which were putting the finishing touches on a plan to save the Social Security system. And this is the same group which continually claims that their lobbying efforts have "saved Social Security", yet testified one year ago to you, Mr. Chairman, that they had never changed a single congressional vote.

I've already articulated my arguments against notch reparations. The fact that the National Committee promotes the legislation is merely another nail in the coffin. I will always be in the front ranks of those fighting to make sure our nation's policies are responsive to America's senior citizens--but only those policies which attack Senior concerns with practical solutions.

No one is being cheated out of their benefits right now. But if any one of the current "notch" bills come to fruition, it will drain the balance of the Social Security Trust Fund, and that would be wrong. We need to guarantee the Fund's solvency because if we don't, millions of future retirees--our children--might never see a dime of Social Security benefits. That, Mr. Chairman, would not only be cheating, it'd be a crime.

STATEMENT OF HON. JIM SAXTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SAXTON. Mr. Chairman, thank you.

I am Congressman Saxton from the 13th District of New Jersey, and I would like to express my personal appreciation, as well as the appreciation of the senior citizens that I represent, and I am sure senior citizens from all around the country as well, for taking the time to hold this hearing.

And we commend you for that, and thank you. And we know that whatever decision you will make a group, that you will do the best you can on behalf of senior citizens.

As we speak today millions of older Americans all across the country are looking on. They are trying to understand a law which provides different benefits to individuals who have had similar work histories and similar earning patterns.

They see a loss of fundamental fairness in the Federal law which allows a disparity of monthly benefits of, in many cases, of over $100 or more in difference in Social Security benefits for those individuals.

Many feel that the cost of corrective legislation alone is enough reason to prevent a discussion of this issue. And of course if that were so, I would submit to you today that many bills, in fact, most bills that come before Congress, couldn't even be considered.

I have reviewed the GAO report, and I'm sorry that I missed their presentation this morning. And I am aware that it states that it will cost anywhere from $24 to $379 billion, depending on the legislation, to address the disparity in benefits; and that certainly is a large sum of money.

But I hope that when the hearing is concluded today, and when all have had an opportunity to speak, the subcommittee will be able to deliberate on this issue in the hope that you, Mr. Chairman, and our colleagues on the subcommittee, will look for reasonable ways—and I want to stress that; reasonable ways—of addressing this inequity, without jeopardizing the solvency of the trust fund.

I think I can speak for my constituents at least when I tell you that they too do not want the Social Security system placed in a haphazard system where it could be in some peril. And I will not take the time to go back over and review the circumstances that placed us in this situation; many others have done that.

The record is rather clear, I believe, on past legislation and the actions which created the notch. I think it is safe to say, however, that Congress originally had good intentions.

It was trying to come up with a transition formula which reasonable people could reasonably accept. However, unanticipated factors came into play that affected how that phase-in formula worked.

I do not believe it was the intent of Congress to allow a disparity of $100 or $125 or more to occur in Social Security benefits. And I ask my colleagues on both sides of the issue, if today we were facing legislation which would reduce benefits for senior citizens by $125 or more, how would we all vote?

I dare say there would be few votes in favor of that kind of a reduction.

I also know that so-called notch babies are not asking for a free handout; nor are they asking for a return to a flawed formula which would again jeopardize the system.

What they are asking for is what Congress originally tried to give them: fair benefits. To do so would require a correction in the transition formula to provide for a true uniform phase in of benefits.

Data from the Social Security Administration demonstrated that the inclusion of earnings after age 61, in the transition computation, would have permitted a better transition.

I believe this is one approach that should be looked at.

Both my good friend and colleague, Hal Daub, of this committee, and the distinguished gentleman from the Select Committee on Aging, Mr. Roybal, have introduced legislation I believe which moves in the right direction.

Both approaches create more equity in benefits for seniors. And while the difference in the dollar value between both bills is significant, I think they provide a good framework from which the subcommittee can work.

However, it is up to the committee to determine what fair benefits should be.

Mr. Chairman, again, I believe this committee hearing is an important step forward for many Americans who have been frustrated and angered by what Congress created in passing the 1977 act.

I know there are no easy answers, and hindsight is always easy. A mistake was made in determining the transition formula. The original intent of Congress was to provide for a smooth phase-in for all persons in the notch years. That didn't happen.

I hope we can move forward from here to correct the mistake that was made many years ago, and in turn, legislate fair changes in the law.

Again, Mr. Chairman, I thank you very much for the opportunity to appear here today on behalf of many seniors, both in my district and around the country. We are very appreciative of your efforts on their behalf.

[The statement of Mr. Saxton follows:]

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Jim Saxton

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"SOCIAL SECURITY: THE NOTCH ISSUE"

House Committee on Ways and Means
Subcommittee on Social Security
April 14, 1988
1100 Longworth HOB

STATEMENT OF CONGRESSMAN SAXTON

Mr. Chairman, allow me to begin by thanking you for convening this hearing. I also want to extend my thanks to you and the Members of the Committee for your patience. I know that this will be a long day. I also know that this issue is not an easy one.

As we speak, millions of older Americans look on. They are trying to understand the law which provides different benefits to individuals with similar work histories and earnings. They see a loss of fundamental fairness in federal law which allows a disparity of monthly benefits of $100 or more difference in Social Security benefits for these individuals.

Many feel that the cost of corrective legislation alone is reason enough to prevent a discussion of the issue. Of course, if that were so, there would be very few bills that Congress could consider or pass.

I have reviewed the GAO report. I am aware that it states it will cost anywhere from $24 billion to $379 billion -- depending on the legislation--to address the disparity in benefits. And that certainly is a large sum of funds.

But I hope that when the hearing is concluded today, and all have spoken, the Subcommittee will deliberate on this issue. I hope that you, Mr. Chairman, and our colleagues on the Subcommittee will look for a reasonable way of addressing this inequity without jeopardizing the solvency of our growing Social Security trust fund.

I think I can speak for my constituents when I tell you that they, too, do not want Social Security haphazardly placed in peril.

I will not take the time to go back and review the circumstances that placed us in this situation. The record is rather clear on the past legislation, and the actions which created the notch. I think it is safe to say, however, that Congress originally had good intentions. It was trying to come up with a transition formula which reasonable people could reasonably accept. However, unanticipated factors came into play that affected how the phase-in formula worked.

I do not believe it was the intent of Congress to allow a disparity of $100 or more in to occur in Social Security benefits. I ask my colleagues on both sides of this issue, if today you were facing legislation which would reduce benefits to some senior citizens $125 a month, how would you vote?

How would you vote, knowing that we are talking about many individuals who, except for the cost-of-living adjustments we grant them, live independently on a fixed income?

I know that some of my colleagues would like the issue to quietly go away and pretend there is no issue. Frankly, I have a problem with that. I don't know how anyone can look at the instances where an abrupt change in benefit levels occurred and reach that conclusion.

Notch babies are not asking for a free handout. Nor are they asking for a return to a flawed formula which would again jeopardize the social security system. What they are asking for is what Congress originally tried to give them -- fair benefits. To do so would require a correction in the transition formula to provide for a true uniform phase-in of benefits.

Data from the Social Security Administration demonstrates that the inclusion of earnings after age 61 in the transitional computation would have permitted a better transition. This is just one of several ideas I hope the Subcommittee will consider. Both my good friend and colleague on the Committee, Mr. Daub and the distinguished Chairman of the Select Committee on Aging, Mr. Roybal have introduced legislation which I support which would work toward providing fair benefits. While the difference in the dollar value between both bills is significant, I think they provide a good framework to work from. However, it is up to this Committee to determine what fair benefits should be.

Mr. Chairman, again, I believe this Committee hearing is an important step forward for the millions of older Americans who have been frustrated and angered by what happened.

I know there are no easy answers and hindsight is always 20/20. A mistake was made in determining the transitional formula. The original intent of Congress was to provide for a smooth phase-in for all persons born between 1917-1921. That did not happen. I hope we can move forward from here to correct a mistake made years ago and, in turn, legislate fair changes in the law.

Chairman **Jacobs**. Thank you, Mr. Saxton.

Mr. Clarke.

STATEMENT OF THE HON. JAMES McCLURE CLARKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. **Clarke**. Mr. Chairman, I am James Clarke from the 11th District of North Carolina.

Mr. Chairman and members of the subcommittee, I appreciate your holding this very important hearing today, and allowing me the opportunity to testify.

The matter of the so-called notch in the Social Security benefit structure has remained unresolved for several years. I believe we have put off action on this issue long enough. I am here today as a representative of the thousands of older Americans in the southern Appalachians who are affected by this Social Security inequity because of the year of their birth. In fact, I myself am a notch baby, but I can assure you I would not be here testifying if it were not for the many voices I have heard expressing concern about their Social Security benefits.

I have received literally hundreds of letters from older Americans in North Carolina who feel that they are victims of an injustice. These people have worked hard all their lives; they have lived through the Depression years; and a very large number of them served in World War II. They feel that the government is not giving them the full Social Security benefits owed them.

When Congress readjusted the Social Security law in 1977, the amount which the transitional group would receive—those born between 1917 and 1921—was not accurately calculated, resulting in a generally lower rate of return in benefits than was initially intended by the transition formula. This does not seem fair.

One of the most frequently asked questions I hear from my constituents is, what is being done about the notch? I have received letters from over 800 people in my district on this matter which is so important to them. I saw from the national visit of notch babies to Washington last June how many people share these concerns all over the country.

I am pleased that several Members of the House and Senate have responded to this public outcry with legislation. I have joined more than 150 House Members in cosponsoring Congressman Roybal's bill to remedy the Social Security problem. The select committee on aging has held several hearings, and done careful investigation into this matter. While Mr. Roybal's bill would be costly, it would reimburse the older Americans who have not been equitably treated by the Federal Government. We are fortunate to be running a Social Security surplus which appears sufficient to cover the cost.

It is important that Congress resolve this matter once and for all. I request the subcommittee to take a careful look at the different legislative proposals in Congress, and that we work together to address the legitimate concerns of people born in the notch.

Again, Mr. Chairman, thank you for holding this hearing today. I am hoping that the subcommittee will act on this matter in the near future.

Chairman Jacobs. Thank you. Mr. Martinez.

STATEMENT OF HON. MATTHEW G. MARTINEZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Martinez. Thank you, Mr. Chairman, for allowing me to testify here today, and honorable members of the committee.

Let me begin by offering my thanks for holding this hearing. And let me add the thanks of the 60,000 senior citizens from my district, as well as the 58,000 senior citizens from your district, Mr. Chairman. These are the people that we are trying to help here today.

Mr. Chairman, as you know, I had asked you about the notch issue some time ago, and although I was appreciative of your response to me, it was inadequate to quell the concerns of the seniors in my district.

On July 22, 1987, I personally sent you a letter urging you to hold hearings on this vital issue. In August, I joined over 60 of my colleagues in signing a similar letter to you.

Finally, on September 30, 1987, along with others, I delivered a speech on the House floor urging that we resolve the notch issue.

Let me refer to a statement that was made here today. "There is no inequity, even though some people are receiving more benefits than others."

That in itself is an inequity. I believe that when you have an inequity, you must address that inequity.

Mr. Chairman, although much of my testimony today is redundant, I think it is like when I was a schoolboy and learning to spell. If a word was misspelled, I would write it a thousand times over and over again on the blackboard. Sometimes it seems that we have to do the same in Congress. Say it over and over a thousand times so that finally it comes through.

The GAO report details the technical elements of the notch issue. But unfortunately it seems that many Members of Congress only see the technical elements of this issue.

It seems that many Members have forgotten that this situation has a human side.

They have forgotten that this is a problem which affects between 7 and 9 million Americans; not just a few people.

They have forgotten that these citizens weathered the Great Depression; that these citizens were a part of our World War II effort to save our freedom and to protect freedom all over the world.

Finally, it seems that they have forgotten that these notch babies are not babies at all. These men and women are now elderly, with each day becoming more frail and more dependent on government assistance.

We cannot forget these noble Americans, and I cannot forget that in my 6 years in Congress, I have received more mail from notch babies seeking help than on any other group or on any other issue.

I cannot forget that senior citizens counted on Social Security, expecting that Social Security would provide a certain level of income. Now they feel through the rough transition caused by the 1977 amendments, that we are in effect saying that we changed our minds. We are saying that your expectations don't count, and the fact that you cannot live out the rest of your years with a certain dignity does not matter to us.

Mr. Chairman, none of us would perpetuate the notch inequity by doing nothing. We should not pull a rug out from under senior citizens who expected and depended on Congress to be fair and equitable—and the key words are fair and equitable.

In answer to the question most often posed to me, when is Congress going to correct this inequity, I have cosponsored three bills which would restore the pre-1977 Social Security benefit rule.

And I am also a cosponsor of two bills which would lengthen and reform the transitional benefit formula, one by the Hon. Congressman Edward Roybal, and the other by Congressman Harold Ford of Tennessee.

All of these bills have been assigned to this committee and have gone nowhere, including H.R. 1917, which was sent here 1 year ago, and which has 155 cosponsors.

Although I am basically against discharge petitions, this prolonged lack of activity forced me to recently join in a petition to have H.R. 1917 discharged from this subcommittee.

However, I am encouraged that this hearing signifies that this subcommittee will now move on this issue and forward to the floor a bill which will provide relief to the notch babies.

As Members of Congress we have many responsibilities, but none is more important than providing to those who truly need Government's help, the children, the disabled, the poor and the elderly.

I realize that these are tight budgetary times, but we should not cut our compassion in our effort to cut costs.

We should not cut the benefits of our senior citizens.

I urge this subcommittee to mark up a notch bill so that we in the entire House will have an opportunity to resolve this vital issue.

Over the years, welfare reform has been nothing more than cutting the benefits and increasing taxes. This is a terrible inequity considering the cost of living today.

Mr. Chairman, there is certainly something we can do for the people who depend on us. I urge the members of this subcommittee to mark up a notch bill so that the entire House will have that opportunity.

Thank you.

[The statement of Mr. Martinez follows:]

TESTIMONY OF CONGRESSMAN MATTHEW G. MARTINEZ
BEFORE THE WAYS AND MEANS SUBCOMMITTEE ON SOCIAL SECURITY
HEARING ON THE GAO REPORT ON THE "NOTCH" ISSUE
APRIL 14, 1988

Let me begin by offering my thanks for holding this hearing. And let me add the thanks of the 60,000 senior citizens from my district, as well as the 58,000 people age 65 and older in your district, Mr. Chairman. For these are the people we are trying to help today.

As you know, Mr. Chairman, I have been very active in the efforts to have this hearing held. On July 22, 1987, I personally sent you a letter urging you to hold hearings on this vital issue. In August, I joined over 60 of my colleagues in signing a similar letter to you. Finally, on September 30, 1987, I delivered a speech on the floor of the House of Representatives urging that we resolve the notch issue.

The GAO report details the technical elements of the notch issue. But unfortunately, it seems that many members of Congress only see the technical elements of this issue. It seems that many members have forgotten that this situation has a human side. They have forgotten that this is a problem which affects between 7 and 9 million Americans -- not just a few people.

They have forgotten that these citizens weathered the Great Depression. They have forgotten that this group includes many veterans -- people who answered our nation's call and went forward to protect the United States and the Free World. Finally, it seems they have forgotten that these "Notch Babies" are not babies at all -- these men and women are now elderly and with each day becoming more frail, and more dependent on government assistance.

I cannot forget these noble Americans. I cannot forget that in my six years in Congress, I have received more mail from notch babies seeking help than from any other group or on any other issue. I cannot forget that senior citizens counted on Social Security. Expecting that Social Security would provide a certain level of income, they saved a corresponding amount of money for their Golden Years.

The rough transition caused by the 1977 amendments in effect says, "We changed our mind. Your expectations don't count. The fact that you cannot live out the rest of your years with dignity does not matter." Mr. Chairman, we should not perpetuate the "Notch" inequity by doing nothing. We should not pull the rug out from under senior citizens who expected and depended on Congress to be fair and equitable.

In answer to the question most often posed to me, "When is Congress going to correct this inequity?," I have co-sponsored three bills which would restore the pre-1977 social security benefit rules. I am also a co-sponsor of two bills which would lengthen and reform the transitional benefit formula: one by the Honorable Edward Roybal, and the other by Congressman Harold Ford of Tennessee.

All of these bills have been assigned to this Subcommittee and all have gone nowhere -- including H.R. 1917 which was sent here one year ago and which has 155 co-sponsors. This prolonged lack of activity forced me to recently join in a petition to have H.R. 1917 discharged from this Subcommittee. However, I am encouraged that this hearing signifies that this Subcommittee will now move on this issue and forward to the floor a bill which will provide relief for the "Notch Babies."

As Members of Congress we have many responsibilities. But none is more important than providing for those who truly need government assistance -- children, the disabled, the poor, the elderly. I realize these are tight budgetary times, but we should not cut our compassion in our efforts to cut costs. We should not cut the benefits of senior citizens. I urge this subcommittee to mark-up a "Notch" Bill so that the entire House will have an opportunity to resolve this vital issue.

Thank you.

Chairman Jacobs. Mr. Martinez, we thank you for your testimony.

The subcommittee will resume its sitting and the hearing at 2 p.m. eastern daylight time.

[Whereupon, at 12:58 p.m., a recess was taken.]

AFTERNOON SESSION

Chairman Jacobs. Our next witness is Congressman Traficant from Ohio. And as soon as he finishes writing his statement, he will give it to us.

STATEMENT OF HON. JAMES A. TRAFICANT, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Traficant. Mr. Chairman, thank you for having me here. I am not going to take a whole lot of time. I have been a strong supporter of the notch program for one major reason. I keep hearing there was a mistake made, and I think if there is going to be a mistake, it is about time it be a mistake on behalf of the American people in general, and specifically our seniors.

We spend $150 billion a year to protect NATO, $16 billion in foreign aid goes to people like Marcos, Baby Doc, the Shah of Iran. It never really got to those people; $150 million a month to protect the shipping lanes in the Persian Gulf. We only get 6 percent of our oil from the gulf; Japan gets 70 percent. I think it is time—I am not going to take a lot of time. It is not political rhetoric—that we send these countries a bill for our services and take care of the notch problem and take care of it right.

I really feel that way. [Applause.]

The only thing I would like to say in addition to that is it is good to see the very powerful chairman come in from Florida——

Chairman Jacobs. He did not come in from Florida.

Mr. Traficant. He was already here, Mr. Chairman.

My district lost 55,000 jobs since 1977. The economic policies of our Nation have wrecked our particular region of Ohio and Pennsylvania. Many of our people are on assistance. Many are on Social Security. And the thing that really bothers me the most about the notch issue is the people that built the bombs and helped to save our behind are now being forgotten.

Now, I know the GAO report speaks to some specific substantive issues. But I believe there has been a wrong, and I believe we should right it. I feel very strongly about that. I believe we are taking care of everybody all over the world, every nook and cranny, every problem, and we have forgotten our own.

I think we should start here. I am a strong supporter of Chairman Roybal's bill. This is not going to be an easy matter. The solution is going to take some sacrifice and some pain and some cost. But for every benefit, Mr. Chairman, there is a cost. And I believe the benefits outweigh the costs here. I am just here very strong as an advocate for the seniors, for the notch babies, and not just because I think they deserve it, but because I think we worry about everybody else. And I think that is, in the long run, eroding the personal freedoms and national security of our own Nation. The notch issue is a good place to start.

So I would like to just say, Mr. Chairman, I am glad to see that committee meetings and at least hearings are being held, even though I know and have the gut feeling that the leadership on both sides of the aisle is not really in our corner on this issue. And we are the minority. I feel that, and I am hoping that the leadership on our side specifically, who has been known to take care of the safety net for the people of our country for many years, would, if necessary, reverse the decisions of some of our leaders, and give this a chance to come on the floor where Members like myself can debate the issues and have a vote of all 435.

That is really all I have to say. I am honored to be here. There are a lot of people from western Pennsylvania, northeast Ohio, West Virginia, and there are the people that have been truly hurting. They are the ones that have been hurting, and we need some help. I think this is one way to look at it. I am in strong support of Chairman Roybal's bill, and I hope it comes to the floor for a vote. [Applause.]

[The statement of Mr. Traficant follows:]

STATEMENT OF THE HONORABLE JAMES A. TRAFICANT, JR. OF OHIO

HEARING OF THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON SOCIAL SECURITY

APRIL 14, 1988, 10:00 A.M., 1100 LONGWORTH BLDG.

Good morning. I'd like to thank the Chairman for this opportunity to address the Subcommittee on the Social Security "notch" issue affecting our senior citizens. Discussion surrounding this complex topic is particularly timely since the recent release of the General Accounting Office's two-year study on the causes and effects of the "notch." I join my colleagues today in thanking the GAO for a thorough and informative report.

Mr. Chairman, we in Congress are at the crossroads of "notch" reform. For nine years we have discussed and debated the difficulties associated with equalizing the Social Security benefits of those recipients born before and after 1917. Between the House and Senate, we are currently reviewing twenty pieces of legislation somehow aimed to resolve the "notch" controversy. The time has come to sit down and devise a sound policy geared toward eradicating any "mistakes" borne out of the 1972 and subsequent 1977 Amendments legislation. With the guidance of the GAO report, it is my sincere hope that we might reach an all-encompassing compromise that is fair for recipients born in 1917, as well as for those born in 2017.

The GAO report explains clearly the legislative history of the "notch" dilemma, with particular emphasis on the effects of the enacted formula legislation in relation to the country's economic health during the formula mandate period. Briefly, in 1972 Congress attempted to implement a streamlined method of providing Social Security benefits based on cost-of-living changes. However, unanticipated inflation throughout the 1970's escalated benefits to a point of over-compensation. By 1977, Congress amended once again the benefit calculations with a new forumula aimed to eliminate overindexing. The plan was to ease the transition from the "old" (1972) formula to "new" (1977) policy over a four-year period ranging from 1979-1983. Those people reaching 62 years during this period were tagged "notch babies," and received a combination benefit less than those born only one year earlier.

It is clear from the GAO report that the benefits awarded to "notch babies," although lower that those of pre-"notch" recipients, are still higher that those awarded under the "new" policy, i.e., to those born after 1921. A few key questions arising from the report, then, are: How serious are the impacts of the "notch" disparity? How much worse off are the "younger" Social Security recipients -- those born between 1917 and 1921, and especially after 1921?

Mr. Chairman, let me say that I am certainly not here today as a proponent of depleting our Social Security trust fund in order to restore full benefits to the "notch babies." It is crucial that we assess the health of the trust fund for the long-run so that Baby Boom retirees, as well as those born after the year 2000, are assured adequate benefits. Second, I do not condone additional payroll taxation at the expense of current and future workers who will have to compensate for the funds used to pay back "notch" recipients. Current workers are already paying a higher payroll tax rate under "pay-as-you-go" financing in order to replenish Social Security reserves. Finally, the process of recalculating "lost" benefits is clearly cumbersome, one that could involve lengthy benefit retabulations for the millions affected.

Yet these obstacles cannot block any just and equitable treatment due to our seniors born during the "notch years." Among the twenty legislative initiatives now pending in Congress, there must be a policy or combination of policies that somehow addresses the "mistakes" of previous legislation. It is also paramount that we work within the scope of rational budget policy and, as I stated earlier, within the limitations of our Social Security trust fund.

Previous attempts to correct the "notch" dilemma have been tabled by Congress, including moves to increase funds via payroll taxation, and to retard the growth of benefits calculated under the old law. In the first case, funds would would be generated, whereas in the second scenario, funds would be saved. A current proposal, H.R. 1917, the "Social Security Transition Benefit Compensation Act of 1987," introduced by Chairman Roybal of the Select Committee on Aging, is an approach that takes a step in the right direction. As a co-sponsor of H.R. 1917, I feel this measure makes pertinent technical corrections that will reduce the cost of solving the "notch years" problem while it also addresses in a just manner the concerns of "notch babies."

Under this legislation, a new benefit formula would be implemented over a ten-year period at a cost of 8% of the payroll. Benefits would be computed under the old law formula minus 3%, with additional 3% reductions for each year the recipient is born after 1916. I believe that H.R. 1917 serves as a viable and just solution to a complex and heated problem. The measure provides just compensation to "notch year" recipients and protects all retirees from abrupt and unjust reductions in Social Security benefits. I hope that we can move forward on H.R. 1917 and implement a bill which will, once and for all, allay the "notch years" dilemma.

Before concluding, I would like to return to the points presented in the GAO report with regard to my financially impacted district located in the Youngstown-Warren area of Ohio. The report makes clear the potential drawbacks of investing time and money in efforts to reinstate lost retiree benefits; tapping the Social Security trust fund and mandating benefit recomputations are both sizeable burdens. However, the area I represent has a large number of senior citizens -- a significant number of which were born in the "notch years." These hardworking citizens include a large portion of World War II veterans, in addition to taxpayers who have been blasted during the last ten years by the decline of the steel industry. Layoffs, depressed economy, and the exodus of jobs to other areas of the country and abroad, only worsen the effect of the "notch" injustice. Many are devastated both financially and psychologically: they have nowhere to turn. As Members of Congress, we must work on behalf of their rights.

Thank you again, Mr. Chairman, for permitting me to address the Subcommittee. I appreciate your dedicated efforts on behalf of our senior citizens, as well as your Subcommittee's fine work. I sincerely hope that we can all work together to resolve the "notch" dilemma during this 100th Congress. Let's help our seniors claim the benefits they desire and deserve.

Chairman **Jacobs**. I do not think it is any well-kept secret that during this decade there have been a number of assaults on the Social Security program generally, and the Medicare program and the disability program particularly. It seems that every year the administration requests new cuts in Medicare. Some real horror stories took place in the disability program earlier in this decade, many of which have been corrected, I think, by the action of the Congress since.

But I have said many times on many occasions that this Government has no obligation to the dictators of this Earth who are destroying their own countries, but it does have obligations to the retirees who helped build this one. So I like your rhetoric very much. Thank you. [Applause.]

Mr. **Traficant**. I want to thank you, Mr. Chairman, for your leadership. I really do. I thank you for the opportunity to come before you and testify here today.

Are there any other questions you have of me? I am asking both of you to be the leaders to make sure this comes to the floor and let the Congress make a collective decision. Let us not keep it hidden away in file 13. If we do that, I think we have a chance.

Thank you very much. [Applause.]

Chairman **Jacobs**. Come forward, colleagues. Come forward.

Why don't we just go in order here? How is that? Why don't we just go with Mr. Hochbrueckner first and just come down the line. Is that all right?

STATEMENT OF HON. GEORGE J. HOCHBRUECKNER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Hochbrueckner**. Thank you, Mr. Chairman.

I will be very brief. Obviously, members and others have submitted testimony. Certainly I have submitted one sheet of testimony, and I will not repeat that. Obviously, it will go into the record, and I am pleased and proud of that.

But I have also, by the way, looked over the charts that have been presented to you today, and it seems to me there have been a variety of charts indicating the degree of the problem and how it has affected people.

Well, I do not have a fancy chart that looks like the others that were made up by graphic artists. I have a rather simple, straightforward chart that I think clearly indicates in the most direct terms the impact of the notch problem and how it has affected people.

Essentially, what this chart shows is what the average monthly benefit level is for our senior citizens who were born in the years 1910 through 1929. And so as you can see, someone born in 1910 would retire with an average benefit of $507 a month. Someone born in 1916 received the average benefit of $555 a month.

The notch occurred based on the 1977 action taken in this Nation. As you can see, we have had a dramatic drop—from $555 down to $451—for someone born in 1920. I think this chart very dramatically illustrates what the notch is. And what it comes down to is the fact that a large number of senior citizens, approximately 9 million, have had a dramatic drop, about a 20 percent drop in the benefits available to them versus people who were born perhaps a day earlier.

So this is an issue of fairness. And while in 1977 we had a major problem with the Social Security system, clearly we do not today. In fact, the estimates indicate that the Social Security trust fund will have $200 billion in surplus in 1990 and $1.3 trillion surplus in the year 2000.

So, clearly, the Social Security system was in trouble. But because of actions that were taken, it is now on its way to being a very, very healthy system. And it is very clear, in the name of fairness, it is absolutely imperative that the notch problem be resolved.

As you see here from the dotted line on my chart, the minimum thing we should do is to eliminate this notch and to provide fairness to those people who were born after 1917. Clearly, it is the right thing to do; it is the fair thing to do; and the system is well positioned to provide these benefits that have been withheld for so long for these deserving people.

So I am delighted that this committee is holding this hearing. I am very proud to be part of this House, and I would hope that over the months ahead the House will deal with this issue in a fair way and take strong and affirmative action.

I thank you very much for your sensitivity. [Applause.]

[The statement of Mr. Hochbrueckner follows:]

GEORGE J. HOCHBRUECKNER
1st District, New York

Committees:
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MERCHANT MARINE
AND FISHERIES
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Testimony of Congressman George Hochbrueckner
before the House Ways and Means
Subcommittee on Social Security
April 14, 1988

I am delighted that the Ways and Means Committee is devoting its attention to the inequity of the Social Security Notch. Today's hearing addressing the problem of the Notch demonstrates that the House is interested in restoring faith and fairness to the Social Security system.

We have all heard of the term "Notch Baby," popularized by Dear Abby and Ann Landers in their syndicated advice columns. But the truth is, the Notch Babies are not babies at all. They are older Americans, born after 1917 who cannot understand why they are being shortchanged on their Social Security benefits.

Rarely does a day go by where I do not have some contact with a Notch Baby, be it in the form of a letter, a phone call, or a petition. At the 30 town meetings I held in my Long Island Congressional District during the past year, the notch issue was an ever present concern of my constituents. More than nine million Americans are affected by the benefit reductions caused by the notch including more than one-half million notch babies in New York State. I agree with my constituents that we need a fair and cost-effective solution to the notch problem.

In 1977, Congress amended the Social Security Act to correct a flawed benefits formula which would have eventually bankrupted the Social Security system sometime in the early 1980's. However, a decade later, the problem is no longer the immediate solvency of the trust fund. The Social Security Trustees this year estimated that the Social Security Trust Funds will have a $200 billion surplus by 1990 and a $1.3 trillion surplus by the year 2000. Social Security has the resources to correct the notch.

The current problem with the Social Security system lies with the compromise that created a five year transition period to ease the change from the old formula to the new formula. This transition period has become widely known as the Notch. Inflation drove up benefits for those covered by the flawed formula by more than was expected and created an unjustifiable disparity in benefits between beneficiaries with identical retirement characteristics - except for their date of birth. The 1977 changes in the benefit formula have reduced benefit levels up to 20 percent or on average about $800 a year for persons born in the five years 1917 to 1921. This disparity remains with us today - 10 years after Congress attempted to solve this problem.

I share the Notch Babies concern about the great disparity in Social Security benefits for people born between 1917 and 1921 and those born prior to 1917. This disparity in benefits has shaken the confidence which many senior citizens previously had in America's Social Security system. These Americans have spent most of their working lives looking forward to their golden years only to see them tarnished by a flaw in the social security benefit formula. I believe it is unfortunate that the Notch Babies have had to bear the burden of the 1977 funding formula. It is particularly unfortunate since many of these senior citizens are veterans who already have sacrificed for our country by serving in World War II. I find it unacceptable for two people with identical work histories to receive vastly different benefits simply because of the years that they were born.

A solution to the notch inequity is necessary, affordable, and long overdue. I urge my colleagues to support legislation that will provide for an improved benefits formula to ensure that the "Notch Babies" are treated fairly.

Chairman JACOBS. Mr. Manton.

STATEMENT OF HON. THOMAS J. MANTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. MANTON. Mr. Chairman, thank you for the opportunity to testify at today's hearing on the Social Security notch issue. As you know, the notch issues has been before the Congress for a number of years, and it certainly is of great concern to many of my constituents. Although the House Select Committee on Aging, of which I am a member, has held a number of hearings on the notch, the issue has not been examined by the Ways and Means Committee for quite some time. In that regard, I would like to commend you, Mr. Chairman, for calling today's hearing. Your leadership has made possible a thorough examination of the Social Security notch by the appropriate legislative committee.

The General Accounting Office report is an essential addition to the debate concerning the notch. The report provides a clear description of the misdirection of the 1972 amendments, the reason for the 1977 amendments, and the development of the Social Security notch. The GAO report also carefully discusses the policy issues surrounding the notch, as well as alternatives and key questions for the Congress to consider as we re-examine this complex issue. The report will be a helpful tool in our attempts to fairly address the notch issue.

However, I am not testifying before you today as an expert on the GAO report or the notch. There are obviously other witnesses who are better suited for these purposes. Rather, I am testifying to represent the views of a majority of my constituents, many of whom are among the almost 600,000 so-called notch babies in my State of New York. Quite frankly, with the exception of potholes in the streets of New York City and the drug problem, I can think of no issue which commands more interest or attention from my constituents than the Social Security notch. The notch issue is the topic of more letters and phone calls to my offices and more questions at town meetings than any other issue in my district. In fact, during the last Congress, my constituents sent 3,000 postcards to your predecessor, Mr. Jim Jones, expressing their support for addressing the notch inequity.

In response to the concerns of my constituents and as a cosponsor of H.R. 1917, I held a field hearing of the Select Committee on Aging in my district last year on the Social Security notch. In addition to testimony from senior groups and advocates, the earnings records of two of my constituents, a husband and wife, were examined for a notch disparity during the hearing. The husband was born in 1916. He retired at age 62 and, therefore, experienced a reduction in his benefit. However, his wife, who was born in 1921, worked until age 65 and earned $6,000 more than her husband during her working life. Yet, since she is a notch baby, she receives a monthly benefit which is $190 less per month than what her husband receives. The experience of this couple highlights one of the greatest inequities of the 1977 amendments. I am specifically referring to the exclusion of post-age 61 earnings of individuals born from 1917 to 1921.

No one disputes the need that Congress had to correct the overindexing which resulted from the 1972 amendments. The 1977 amendments were an attempt to make that correct. While they were largely successful in correcting the overindexation, I believe the decision to exclude post-age 61 earnings based solely on the year of birth was grossly unfair.

Mr. Chairman, this inequitable situation deserves action and attention. Millions of Americans are being treated unfairly. The Social Security system was designed to treat all Americans fairly and equitable. Congress must seek a workable and responsible way to restore fairness to the system.

Mr. Chairman, in conclusion, I hope today's hearing is the beginning of that process. I urge you to study the GAO report and the testimony of today's witnesses and also the record developed by the Select Committee on Aging at hearings held across the country.

I know your committee will thoroughly explore every possible alternative to correct the notch. On behalf of the constituents of the 9th Congressional District of New York—and this is a district which has the 12th highest incidence of senior citizens of our 435 districts—we thank you again for holding today's most important hearing. Your commitment to the Social Security system and the rights and benefits of beneficiaries is well known. I will look forward to working with you to develop a solution to the notch inequity which is fair to all Americans.

Thank you, Mr. Chairman. [Applause.]

Chairman JACOBS. We are pleased to welcome Mr. Lightfoot, who is one of the stalwarts in the House gymnasium.

Mr. LIGHTFOOT. Someone has to watch you wash your socks, Mr. Chairman, and keep all that in line down there.

STATEMENT OF HON. JIM LIGHTFOOT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. LIGHTFOOT. Thank you for this afternoon, Mr. Chairman and members of the committee and our fellow colleagues. I am pleased to be able to appear before the Subcommittee on Social Security to discuss my views on the Social Security notch.

As evidenced by the number of people who have asked to testify and the number of people in the audience, it is an issue which has captured the attention of older Americans and of Congress as well.

The notch issue revolves around the question of fairness. Millions of individuals strongly believe that they have been unfairly treated, and they are demanding that Congress address the notch problem. Others are arguing that there is no notch or that we cannot afford to fix it. But whatever your view, I think everyone will agree that holding a hearing such as this one is the responsible approach to take.

It is important for the subcommittee and Congress to review carefully the questions surrounding the notch. The General Accounting Office report and testimony from today's witnesses will serve as an important starting point in resolving this difficult problem. In addition, I hope the subcommittee will thoroughly review the legislation proposals put forward thus far to address the notch problem.

I am an original cosponsor of H.R. 1917, which was introduced by Congressman Roybal, and which is widely supported on both sides of the aisle in both the House and the Senate. This legislation eliminates the disparity in benefits by stretching out the transition formula which was created under the 1977 Social Security Amendments. In addition, I note that my distinguished colleague from Nebraska, Mr. Daub, who testified earlier has offered a more modest bill to address the notch.

The subcommittee has many different legislative options to analyze, and with thorough review, the subcommittee should be able to develop some type of solution to this problem. It has been over 11 years since the inequity was created, and it is time that Congress corrected it. Otherwise, the confidence of older Americans in Congress and the Federal Government will be further reduced.

Hundreds of individuals affected by the notch have contacted me during the past few years, and their frustration with Congress's inaction on this issue are very readily apparent. These individuals recognize that Congress needed to correct a mistake in the benefit formula in 1977. Their only wish is that Congress would have promptly fixed the new error that the notch created by those 1977 changes.

The financial costs involved in correcting the notch are an important consideration in determining how to address the problem. I admit there are no easy solutions. But what we should keep in mind is that this is an equity problem, and could and should have been addressed by Congress years ago. It is now time for us to deal with issue in a fair and responsible manner. We can no longer dismiss the issue, nor can we avoid it nor study it any further. It is time for us to take positive action toward correcting it.

As members of this subcommittee, you definitely have your work cut out for you. After your careful review of the issue, I am confident that you will follow the proper course and develop an equitable solution to the problem.

With that, Mr. Chairman, I would like to commend you and your colleagues for holding this important hearing. I also would like to offer a special thanks for allowing Mr. Daryl Cooper, president of the Committee to Correct Inequities in Social Security and Medicare, to testify. Mr. Cooper resides in my congressional district, and I have no idea how many thousands of hours and dollars he has spent trying to educate people to this situation all across the country. I appreciate your courtesy extended to him today.

Thank you again, Mr. Chairman. [Applause.]

Chairman **Jacobs**. Mr. Kanjorski.

STATEMENT OF HON. PAUL E. KANJORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. **Kanjorski**. Mr. Chairman, there is no question that it was necessary for Congress to make amendments to the 1972 Social Security law to ensure the long-term solvency of the Social Security trust fund. The question is whether or not the transition formula was fair.

Congress intended to prevent abrupt reductions in benefits while making the transition to the new formula. Congress originally discussed a 10-year transition period, but reduced this period to 5 years, affecting those born between 1917 and 1921. Congress also intended that the short-term benefit gap would be no more than 9 percent over the 5-year period.

Opponents of correcting the notch say that the transition formula has worked and there is no problem. However, the initial reduction for 65-year-old retirees born in 1917 was 10 percent. This is larger than the 9 percent maximum that Congress originally intended. The reduction was meant to be phased in over 5 years, and the maximum reduction on the average 65-year-old retiree in the 5-year period was over 20 percent.

Opponents then say that the real problem is that those born in 1915 and 1916 are being overcompensated. It is true that those born in those years are receiving higher benefits. However, they are not being overcompensated. The average-earning 65-year-old single retiree born in 1916 received 7 percent less than was projected under the original Social Security Act of 1935.

Since Social Security laws are constantly changing—I think it is dangerous to talk about overcompensation—there is no set policy on what is the correct replacement rate. Perhaps the Congress at this time should take the opportunity to set out a policy so that henceforth in the future we will have a base from which to reflect.

Opponents then suggest that only a few individuals actually suffer from the large reductions in compensation. There are 9 million notch babies in the United States; 390,000 of them reside in Pennsylvania, and 20,000 of them reside in my district. I think I meet them every weekend. The fewer the number of individuals who are unfairly compensated, the greater the discrimination, and the greater should be our efforts to correct the problem.

This should not be a partisan issue. It must be a bipartisan priority. People are losing faith in the Social Security system and the ability of Congress to amend it as required.

When Congress makes laws, it must attempt to foresee the future. Sometimes we are wrong. Congress did not fail when it passed the 1977 Social Security Amendments. We will only fail if we do not recognize that it must be changed and maintain our flexibility to act.

Mr. Chairman, I urge that this bill pending before your committee be moved on to the House floor. I think we can find a satisfactory resolution of this problem. May I make only one added suggestion, whatever this committee does: That we do not revisit the problem in the future, and that we take the opportunity to appropriate additional funds to educate retirees and the American people so that we are not revisited by people not misunderstanding the application of amendments such as the 1977 amendments.

I think the Congress would be well advised to act promptly, correct the inequity that occurred in the original amendments, and then take it upon itself to inform the retirees and future retirees of America of just how the compensation amendments will affect them.

Thank you very much, Mr. Chairman. [Applause.]

[The statement of Mr. Kanjorski follows:]

TESTIMONY OF

Congressman Paul E. Kanjorski

TO THE

House Ways and Means
Subcommittee on Social Security

On Correcting the "Notch" Inequity

April 14, 1988

There is no question that it was necessary for Congress to make amendments to the 1972 Social Security Law to ensure the long-term solvency of the Social Security Trust Fund. What is at issue is whether the 1977 Social Security Amendments provided for a fair transition.

The intent of Congress, in 1977, was to prevent abrupt reductions in benefits while making the transition to the new formula. Congress originally had planned for a ten year transition period, but unfortunately, reduced that transition period to only five years, which affected those born between 1917 and 1921. Congress also intended that the short-term benefit gap would be no more than 9%, averaging about 2% per year over this five year period.

Opponents of correcting the "notch" inequity contend that the transition formula has worked, and therefore, no inequity actually exists. However, the average, initial reduction for 65 year old retirees born in 1917 was 10%, exceeding the 9% reduction that was supposed to be phased-in over five years. The maximum reductions for the average 65 year old retiree was over 20%, exceeding the expected reductions by over two times. This means that the maximum drop in benefits for the average retiree born in the "notch" years is $1,668 per year.

Opponents then say that there only appears to be a problem because those born in 1915 and 1916 are being overcompensated by Social Security. Therefore, the inequity seems larger than it really is. However, while it is true that those born in these years are receiving higher benefits than those born in 1917, they are not being overcompensated. The average-earning, 65 year-old, single retiree born in 1916 receives 7% less than was projected under the original Social Security Act of 1935.

Then opponents suggest that only a few individuals actually suffer from such large reductions in compensation. Therefore, it is not worth paying the enormous expense to correct the problem for such a small number of people. There are approximately 9 million senior citizens who were born in the notch years in this country. Over 390,000 of them are in the Commonwealth of Pennsylvania, and roughly 20,000 are in my district. What constitutes a "few?" If there are so "few," why is it so expensive? Furthermore, the fewer the number of individuals who are unfairly compensated as a result of this inadequate transition formula, the greater the discrimination, and the greater should be our efforts to correct the inequity.

This should not be a partisan issue. It must be a bipartisan priority. There is a justifiable perception within a large segment of our population that the Social Security System is unfair and discriminatory. There is a perception that Congress is unable to address this issue. Consequently, a great number of people are losing faith in the Social Security System. These are not just people who have recently retired, these are young people who wonder, "if Congress cannot address this issue, how will it address similar issues that may arise when I reach retirement age."

When Congress amended the 1972 Social Security Law, it did so to ensure the solvency of the Social Security System. It meant to do this in an equitable fashion. When we pass laws, we in Congress are expected to predict the future based upon the past. Sometimes our predictions are wrong and must be corrected based upon new knowledge. Congress did not fail by passing the 1977 Social Security Law. We will only fail if we do not recognize that it must be changed, and maintain our flexibility to act.

Chairman **Jacobs**. Mr. Kanjorski, could you cite authority for the statement that the bonanza years are less than intended in 1937?

Mr. **Kanjorski**. I will be able to give you support for that, Mr. Chairman.

[The following was subsequently received:]

PAUL E. KANJORSKI
11TH DISTRICT, PENNSYLVANIA

COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS

COMMITTEE ON VETERANS' AFFAIRS

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Ways and Means
Subcommittee on Social Security

April 29, 1988

The Honorable Andrew Jacobs, Jr.
U.S. House of Representatives
Washington, D.C. 20515

Dear Andy:

I would like to thank you for giving me the opportunity to testify before your Subcommittee on the "notch" issue. My district has a very high senior citizen population. Therefore, the "notch" issue is of great importance to many of my constituents.

I wanted to follow-up on your inquiry regarding the source of my assertion that certain individuals born in the "bonanza" years are receiving less than was intended under the original Social Security Act of 1935. I based that statement on a comparison of replacement rates for single workers retiring at age 65 under various Social Security formulas. This study was completed by Mr. Robert Myers, who as you probably know, served as Deputy Commissioner of Social Security and Chief Actuary of the Social Security Administration. I have enclosed a copy of a memorandum on the subject for your information. According to his projections, the average-earning, 65 year-old, single retiree born in 1916 is receiving anywhere from two to seven percent less than was projected under the original Social Security Act of 1935 had its formula remained intact.

I do not mean to assert that in 1935 Congress had a clear intent that replacement rates for this group should be approximately 58% instead of 51.2% which occurred under the 1972 law. Clearly Congress did not intend that, for it has only been recently that we have used replacement rates as a measure of appropriate compensation. What I meant to point out is that the term "overcompensation" is inappropriate because we have not yet determined what the proper replacement rate should be. This really was the thrust of my argument and the statistic I used was meant to illustrate it.

I think it is dangerous to discuss overcompensation when we do not have a clear policy on what the appropriate replacement rate should be. Social Security is supposed to provide a "base" in retirement. However, the term "base" has never been defined. It certainly has not been defined in terms of replacement rates, which is the accepted means by which to assess just compensation. Yet, your Subcommittee is suggesting that "bonanza" babies are being overcompensated because their replacement rates are too

The Honorable Andrew Jacobs, Jr.
Page 2
April 29, 1988

high relative to replacement rates provided by earlier formulas and relative to what the system could accommodate financially had the 1972 formula remained in place. I am pointing out that this is not necessarily the case relative to the original act nor is it the case relative to an accepted standard. There is no standard. To avoid the confusion that has arisen as a result of the creation of the "notch," perhaps we should have a standard system of replacement rates. Perhaps we should also attempt to explain this policy to senior citizens so that they have a clear understanding of what they can expect in their retirement. Otherwise they will continue to feel undercompensated relative to their actual financial needs.

I hope that any disagreement you may have with the assumptions used by Mr. Myers will not detract from the thrust of my argument. Thank you again for giving me the opportunity to testify and thank you for your time and kind consideration.

Sincerely,

Paul E. Kanjorski

Paul E. Kanjorski
Member of Congress

PEK/mg

Enclosure

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM
736 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20503

March 10, 1982

MEMORANDUM NO. 2

TO: Members of the National Commission on Social Security Reform

FROM: Robert J. Myers
Executive Director

SUBJECT: History of Replacement Rates for Various Amendments to the Social Security Act

At the meeting of the Commission on February 27, there was brief discussion of the fact that replacement rates (the initial benefit expressed as a percentage of the monthly earnings in the previous year) were about the same for the ultimate condition under present law as those ultimately contemplated in the 1939 Act, especially for workers with earnings at about the average level. This conclusion was drawn from Appendix 3-5 of my book "Social Security" (Second Edition, published by Richard D. Irwin, Inc., 1981), page 261. This memorandum presents a more complete analysis of this subject by examining the replacement rates under various acts between 1939 and 1977.

The figures for any particular law in the period beginning with 1950 are derived by using the benefit formula of the particular legislation and applying it to the earnings level (as defined in footnote b of the table) in the following year. This is done because, prior to the 1977 Act, the philosophy underlying the development of the formula was that it applied to the earnings level at the time and that it would be adjusted in subsequent years to reflect changes in economic conditions.

The attached table compares replacement rates for single steady workers (or, equally, for married workers whose spouse is not receiving a benefit based on the worker's earnings record) for retirement at age 65 under various acts. The figures given for the 1935 and 1939 Acts are under two alternatives--minimum coverage needed to be eligible in the early years of operation and maximum coverage possible over the long run. It is important to note that both of these Acts contained the individual-equity principle that benefit amounts should increase with length of coverage, whereas subsequent acts moved more toward the social adequacy basis by having benefit amounts depend only on the levels of average earnings, and not on length of coverage (insofar as steady workers employed throughout their entire potential working lifetimes were concerned).

As compared with the 1939 Act, a significant change, with regard to steady workers, was made in the 1950 Act by eliminating any dependence of the benefit amount on length of coverage. In doing so, benefits in the early years were increased, while at the same time the benefits payable in years in the distant future were decreased, as a trade-off. In fact, this is why the change was made -- so as to increase benefits in the early years, and yet not increase the average long-run costs of the program.[1] Thus, the replacement rates for workers with average earnings (and also for other earnings levels) were increased by the 1950 Act for the near-future years as compared with the replacement rates under the 1939 Act for workers with relatively short coverage, including not only those newly covered by the 1950 Act, but also (to a somewhat lesser extent) those whose coverage began in 1937.

After 1950, and up through the 1965 Act, the replacement rates under the various laws remained relatively unchanged (although there was a significant increase for the average and maximum cases in the 1954 Act). Then, subsequent legislation up through the 1972 Act (which also affected the situation in 1975, as the PIA benefit formula was automatically adjusted) significantly increased the replacement rates for all earnings levels. In the 1969, 1971, and 1972 laws, this resulted from the ad hoc changes, while in 1975, it resulted from the faulty benefit computation method (which was corrected and partially compensated for by the 1977 Amendments).

The ultimate replacement rates under present law (which will be achieved in a few years, as there is transition from the higher level resulting from the faulty method contained in the 1972 Act) is at about the level under the 1969 Act, but is significantly above the level in the 1967 Act and in the preceding period back to 1950.

In summary, the analysis of the data in the attached table could be considered in two separate ways, with different results. On the one hand, it is correct that the present benefit level is about the same as that ultimately contemplated in the 1939 Act (when the situation is considered from a relative standpoint).

On the other hand, it can be argued that the 1950 legislation involved the theory, which has been continued ever since, that the same relative benefit level should be applicable in all future years. This was achieved in 1950 by raising the relative benefit level in the early years and lowering it over the long run. Under this approach, it could then be argued that, properly, the current relative benefit level should not be as high as that initially contemplated in the 1939 Act for the ultimate condition. The reason for this is that there had been the trade-off of higher benefits in the early years of operation under the 1950 and subsequent laws for lower ultimate ones and that now there should not be a shift so that the ultimate level will be higher than the average level which was "bargained for" in the 1950 Act.

Robert J. Myers

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[1] Part of the rationale for increasing replacement rates for those with short covered careers after 1950 was to take into account the fact that coverage was extended to new groups of workers in 1951. Under the new benefit formula of the 1950 Act, the newly covered workers would not be penalized for their lack of coverage before 1951.

Comparison of Replacement Rates for Single Workers Retiring at Age 65 Under Prior Social Security Acts and Present Law a/

Act	Earnings Level b/		
	Low	Average	Maximum
1935 c/			
--Minimum Coverage	30.0%	20.0%	10.0%
--Maximum Coverage	73.0	58.0	34.0
1939 c/			
--Minimum Coverage	41.2	28.8	16.5
--Maximum Coverage	57.2	40.0	22.9
1950	44.7	30.0	26.7
1952	45.2	30.3	28.3
1954	47.6	34.0	31.0
1958	46.7	34.2	31.8
1965	44.2	33.5	30.5
1967	46.9	36.3	33.5
1969	51.7	40.3	38.6
1971	53.5	43.0	39.4
1972	62.7	51.2	42.7
1975	70.2	55.9	42.6
1977 (Present Law) d/	52.4	40.8	27.4

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a/ Replacement rate is defined as the ratio of the annual rate of benefit payment as of the date of retirement at the beginning of the year to the annual earnings in the previous year.

b/ The annual average earnings level is assumed to be $1,000 for the computations under the 1935 and 1939 Acts (because wages were relatively stable in the late 1930's), and equal to average earnings in the economy for subsequent computations. The low earnings level is approximately 50 percent of the average level, and the maximum is equal to the applicable maximum taxable wage base.

c/ The minimum coverage was 5 years for the 1935 Act and 3 years for the 1939 Act; the length of coverage for steady worker generally has no effect on benefits under subsequent Acts. The maximum coverage was taken as 43 years (from age 22 to age 65) for both the 1935 and 1939 Acts (actually, 43 years was the maximum creditable under the maximum-earnings case under the 1935 Act).

d/ Ultimate replacement rates shown taken from Table 3.5 in Social Security by Robert J. Myers. The comparable replacement rates for low, average, and maximum earners would be 52.5%, 41.2%, and 27.6%, respectively, under the Alternative II-B assumptions used in the 1981 OASDI Trustees Report.

Chairman **Jacobs**. How did that come about? I am a little confused about it because they did not have Medicare then, and they did not have disability then.

Mr. **Kanjorski**. The formula based on what benefits could be anticipated.

Chairman **Jacobs**. Old-age and survivors' benefits? You are making the assertion on the record that, adjusted for inflation, they are 7 percent lower than the benefits paid in 1938, for example? Is that your testimony?

Mr. **Kanjorski**. They are 7 percent lower than would have been anticipated under the original act of 1935.

Chairman **Jacobs**. Then what I say is essentially your testimony that they would be, in real dollars, 7 percent lower than what was paid in 1938 to retirees?

Mr. **Kanjorski**. Not what was paid in 1938. What was anticipated that would be paid if the formula had been followed through.

Chairman **Jacobs**. I am a little confused. You mean by 1938 there was a lesser amount than was intended?

Mr. **Kanjorski**. No, that would have been anticipated for babies born in 1917, or 1915 or 1916, that it was——

Chairman **Jacobs**. Oh, you are not talking about anticipated in the origin of the Social Security system then. We were just a little confused. You are talking about what was anticipated in 1977 with those amendments?

Mr. **Kanjorski**. Yes, what would be projected out.

Chairman **Jacobs**. And you are talking about the disparity between what was paid to the notch years and the bonanza years?

Mr. **Kanjorski**. No, no. If you had taken out what would have been anticipated under the 1930 act to 19——

Chairman **Jacobs**. It was 1937.

Mr. **Kanjorski**. Right. 1937. If you had taken that out to the actual payments to those born in 1916, you could have expected that they could receive 7 percent more than they actually did.

Chairman **Jacobs**. So you are saying that the benefits in 1938, for example, in real dollars were 7 percent higher than those, say, in 1977 for a similarly situated person?

Mr. **Kanjorski**. That may be mathematical—I have not worked that out. I will have to check that, Mr. Chairman. I will be happy to provide you with that information.

Chairman **Jacobs**. That is baffling a few people around here a little bit, because most people will say that the benefits have been increased substantially in percentage terms since the early days of the system.

For example, earlier I believe a figure was read into the record that between 1968 and 1973, wherever it is, between 1968 and 1973 there had been an increase in the cost of living of 20 percent, and the increase in the benefits had been 70 percent. So you can see why your testimony astounds us slightly.

Mr. **Kanjorski**. Yes.

Chairman **Jacobs**. Fine. Thank you.

Mr. DeFazio.

STATEMENT OF HON. PETER A. DeFAZIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. DeFazio. Mr. Chairman, thank you for the opportunity to testify on the Social Security notch problem.

As you have heard previously, the notch affects more than 9 million Americans nationwide, but it also affects 117,500 Oregonians who are receiving reduced Social Security benefits because of the date they were born. You have heard the anecdotal evidence. I would relay a similar story in my home town of Springfield, Oreg.

Two millworkers worked side by side virtually their whole lives in a series of mills in Springfield. They worked hard, paid into Social Security from the day it first went into effect until the time they retired. And yet one receives a benefit of almost $80 a month more than the other because of the date of his birth, one born in 1916 and one born in 1918.

These notch babies, many of whom served in World War II, paid into Social Security during their entire working lives. Now they find that they are discriminated against due to congressional reforms of the Social Security system. I believe it is time to remedy the inequity.

Mr. Chairman, I feel it is particularly important to take just a moment to discuss the GAO report. On page 81, GAO states that they used a sample of married men living with spouses who retired in 1980 and 1981 to look at retirement income levels. I do not think this sample reflects the reality of how seniors in this country live.

Married men living with spouses are the highest income elderly family unit. Recently retired seniors also tend to have more income than those retired for any length of time. This sample was clearly biased toward the wealthiest group of retirees.

The sample completely excluded the needs of persons outside this category. For example, only 20 percent of all women in this age group have a pension—either their husband's or their own. Once a husband dies, often the survivor loses the pension. Women who were never married tend to have significantly lower benefits due to years of discriminatory wage policies.

According to the Villers Foundation, the reality is that women make up 58.7 percent of the senior population, but account for 72.4 percent of those below the poverty line. For minority women in this age group, the percentage is much higher. In addition, women generally live longer than men. Fixing the notch does not just benefit retired workers, but will affect their survivors for years to come.

The New Beneficiaries Survey of the GAO implies that looking at those retiring in 1980 and 1981 reflects similar circumstances as those retiring in the notch years. I must disagree. The recession was at its worst in 1982 and beyond. Seniors retiring in these years experienced completely different economic conditions than those retiring in 1980 or 1981.

Despite GAO's disclaimers on this sample, the implicit conclusion is that seniors are doing just fine. They have plenty of other assets and do not really need more Social Security. I think if we looked at all the senior populations and factored in the recession, we would have a very different picture. A few dollars to these fixed-income

Americans means a tremendous amount. I urge the subcommittee to consider these issues.

Until Congress acts to correct the mistakes it made in 1977, the notch issue will not go away, and seniors will continue to be deprived of the benefits they worked and paid for. It is time to face up to a tough and controversial issue.

We have got some good solutions on the table. Let us move forward and enact legislation to correct the notch inequity. Let have the 100th Congress be known as the Congress that brought fairness and equity back to the Social Security system.

Thank you, Mr. Chairman. [Applause.]

[The statement of Mr. DeFazio follows:]

Remarks of the Honorable Peter DeFazio
Before the Subcommittee on Social Security
April 14, 1988

Mr. Chairman, I appreciate the opportunity to testify on the Social Security "Notch."

Today, more than nine million Americans and 117,500 Oregonians receive reduced Social Security benefits simply because of the date they were born. This inequity, created by Congress in 1977, is commonly called the Social Security "Notch."

At one of my district town hall meetings, a constituent told me that he had worked along side one of his neighbors for over thirty years. They raised their children, pursued careers with equivalent salaries and then retired at approximately the same time. One thing that was not to be the same was their Social Security benefits. Because one of these two men was born several months before the other, his benefits are significantly higher.

According to 1986 Social Security Administration statistics, the average annual benefit for people born between 1917 and 1921, the Notch years, was $856 less than for people born in 1910 and $1,308 less than for people born in 1916 -- even if they have identical earnings and Social Security contribution records.

There is no doubt that the Social Security System needed reform in 1977 to bolster its then-tenuous finances. However, those changes should not have been made at the expense of a select group of seniors simply because of their birthdates.

"Notch Babies," many of whom served in WWII, paid into Social Security during their entire working lives. Now they find they're discriminated against due to congressional "reforms" of the Social Security System. It's time we remedied this inequity.

Mr. Chairman, I feel its important to take just a moment to discuss the GAO report. On page 82, the GAO states that they used a sample of married men living with spouses who retired in 1980 and 1981 to look at retirement income levels. I don't think this sample reflects the reality of how seniors in this country live.

Married men living with spouses are the highest income elderly family unit. Recently retired seniors tend to have more income that those retired for any length of time. This sample was clearly the wealthiest group of retirees.

The sample completely excluded the needs of persons outside this category. For example, only 20% of all women in this age group have a pension - either their husband's or their own. Once a husband dies, often the survivor loses the pension. Women who were never married tend to have significantly lower benefits due to years of discriminatory wage policies.

According to the Villers Foundation, the reality is that women make up 58.7 percent of the senior population, but account for 72.4 percent of those below the poverty line. For minority women in this age group, the percentage is much higher. In addition, women generally live longer than men. Fixing the notch does not just benefit retired workers, but will affect their survivors for years to come.

The New Beneficiaries Survey also implies that looking at those retiring in 1980 and 1981 reflects similar circumstances as those retiring in the "notch" years. I must disagree. The recession was at its worst in 1982 and beyond. Seniors retiring in these years experienced completely different economic conditions than those retiring in 1980 or 1981.

Despite the GAO's disclaimers on this sample, the implicit conclusion is that seniors are doing just fine. They have plenty of other assets and don't really need more Social Security. I think if we looked at all the senior populations and factored in the recession, we would have a different picture. A few dollars to these fixed-income Americans means a tremendous amount. I urge the Subcommittee to consider these issues.

Until Congress acts to correct the mistakes it made in 1977, the Notch issue will not go away and seniors will continue to be deprived of the benefits they worked and paid for. It's time we face up to a tough and controversial issue.

We've got some good solutions on the table. Let's move forward and enact legislation to correct the Notch inequity. Let's have the 100th Congress be known as the Congress that brought fairness and equity back to the Social Security system.

Chairman JACOBS. Mr. Levin.

Mr. LEVIN. Let me if I might just raise one quick point to our colleague from Oregon. And maybe you could comment on this later for the record.

We have been, during the interim period, looking at charts on replacement rates by age of retirement, and by income. And if I might, let me give you a copy of this, and perhaps you could react to it for the record.

What it seems to show is that when you look at the House report in 1977, they projected replacement rates by income groupings. 55 percent for low income earners; 43 percent for average income earners; and 30 percent for maximum income earners.

And Ms. Oakar raised the same point this morning about low income Social Security recipients. This chart seems to show that for those in the notch years, both age 62 and 65 retirees, that the replacement rates for all of those years are beyond 55 percent what was projected in the House report.

So let me show this to you. For those in the average wage earning categories, the projected replacement rate was 43 percent, and in most years, the people in those years are meeting that.

And it's in the higher income brackets, the maximum earning bracket, where the recipient is falling below the projected replacement rate which was 30 percent.

So if you would take a look at that, especially in view of your clear concern about equity in terms of impact on income groups in America, not only in Oregon, if you could take a look at this and give us the benefit of your reactions.

Because the replacement rate tables tend to paint, if they're accurate, a different picture in terms of at least replacement rates and what has actually happened.

So I will just send this to your office. And if you will give us the benefit—you've obviously put a lot of time into this—of your reactions.

Mr. DEFAZIO. I would appreciate that. I was staff before I was a Member, and I staffed Social Security issues for 5½ years for a Member. So I do bring a little background to the issue, and I would be happy to comment on that.

Mr. LEVIN. That would be good. If you would give us the benefit of your expertise, thanks.

Chairman JACOBS. Mr. DeFazio, you mentioned a moment ago the amount people had paid for benefits they're getting. Do you have a quarrel with the actuary's assertion, as I understand it, that the person who turned 65 in 1987, who paid the maximum Social Security tax during his or her working life, and had a spouse who was not in covered employment, but entitled to the 50 percent benefit, would recover everything that person had paid into the Social Security system, together with interest at the Government bond rate in 3½ years?

Mr. DEFAZIO. Well, my knowledge, the last time I saw that figure was in about 1983, but it was approximately 3½ to 4 years back in 1983; I assume it hasn't changed significantly since that time.

Chairman JACOBS. And that the life expectancy of such a person would be beyond those 3.6 years, would be something in the nature of 13 to 16 years beyond that?

Mr. DeFazio. I would assume that is in line with the current expectations. If you reach age 65, you generally have a life expectancy beyond the mean.

Chairman Jacobs. Even in 1987, at the end of the notch adjustment, those are the figures the actuaries give us. So Social Security isn't really a terrible deal in a way is it? You hear people say let's abolish it and make it voluntary and let people go out and buy their IRAs. There aren't a whole lot of people after they get through paying for diapers and everything at the end of the month who can buy IRAs, are there, in this country?

Mr. DeFazio. There is no substitute for the system in terms of the package you get: covered benefits for a spouse; disability benefits; lifetime benefits. There is no comparable package in the private sector, and I do not in anyway propose a weakening or abolishing or dilution of the system.

Chairman Jacobs. I'm sure you don't.

The second question is, would you agree or disagree with the actuaries who indicate in their chart that those following the notch years, and that would be the end of the adjustment back toward the intended formula in 1972, have a slightly higher benefit in real dollars than those benefits in 1972 which were supposed to be made static in purchasing power?

Mr. DeFazio. I'm afraid at that point I would have to comment for the record. I would have to go back and look at those two issues. I don't recall that from what I've read.

Chairman Jacobs. I wonder if because of your background, you would submit some opinion about that, because as I understand, it is the actuary's computation. We would be pleased to know if there was any disagreement.

I think we are getting into the area of rather absolute facts, since the Consumer Price Index is a well known thing. To use my original example, is it true that after the notch adjustment is made, those following and those in the last notch year are still receiving slightly more beans than were intended in 1972 by the original automatic formula?

Mr. DeFazio. Well, of course, we put the original automatic formula into effect actually for what we thought would be a way to keep the cost of the system down and avoid the election year increase in Social Security.

Chairman Jacobs. I appreciate that. But apart from that, just a simple assertion is that the benefits were already inflated. I recited a moment ago a 70 percent increase in benefits during a period between 1968 and 1973 when the cost of living had only gone up 20 percent.

It was based on that 70 percent inflated benefit that they now assert that those in the lowest notch year and thereafter are receiving slightly greater purchasing power than existed in 1972.

Mr. DeFazio. Well, I would be happy to look into that and comment.

Chairman Jacobs. You might look at that and give us a comment. It is in sharp contrast to—I've heard the word "perception" a lot today—to the perception of a lot of people. And they are the fellows with the sliderules and the computers.

So I think we ought to lend some credence to them. But let's see if you have some differing opinion.

Mr. **DeFazio.** Well, if I could, Mr. Chairman, I have long been an advocate of a different CPI for seniors. Because the market basket that is used for American families in general does not necessarily specifically apply to seniors, nor the adjustment for senior-related programs, because they purchase quite a different profile of goods, primarily utilities; they were very, very hard hit, harder hit than the average family by the escalation in gas and oil prices. They disproportionately purchase health care and health care products beyond the profile of the average American family in a way that is not weighted into the CPI for the average citizen.

Chairman **Jacobs.** As I recall, John Anderson of Illinois, when he ran for President, argued that it should be changed also, but pointed out other factors that would not exist in the market basket, such as portal-to-portal costs to go to work, and clothing that might be required to go to work, and so on.

So I think that's an area for examination. I fully agree. I'm not sure just exactly where you would come out.

Mr. **DeFazio.** Well, if I might, again, Mr. Chairman, historically health care has far outpaced increases in clothing or any of those other areas.

Granted, people have to purchase them. But if we are indexing percentagewise on a price index, I think that the studies I have seen show that one that is specific to a senior market basket would have gone, and would continue to go up faster, than one that is predicated on those other items.

Chairman **Jacobs.** Well, with the cost of the Medicare system generally, there is no doubt it outstripped inflation.

And I found out all about that when I ran for reelection in 1986.

Well, we thank you very much.

Mr. **DeFazio.** Thank you, Mr. Chairman.

Chairman **Jacobs.** Dr. Flemming. We are pleased and honored to have with us Dr. Arthur Flemming, former Secretary of Health and Human Services.

STATEMENT OF HON. ARTHUR S. FLEMMING, COCHAIR, SAVE OUR SECURITY COALITION, AND FORMER SECRETARY OF THE U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. **Flemming.** Mr. Chairman, members of the committee, I am appearing before the committee today as cochair of SOS, Save our Security, a coalition of 110 national, State and local organizations, dedicated to maintaining the integrity of our Social Security system.

I am attaching to my statement a list of the organizations that subscribe to the basic position taken in the statement.

As a coalition we are concerned, and I personally am concerned, that a group of Social Security beneficiaries believe that the Congress has acted in such a matter as to result in their being treated unfairly.

I personally appreciate, Mr. Chairman, your decision and the decision of your colleagues, to provide those who feel this way with the opportunity of presenting their point of view to you.

We likewise appreciate the opportunity that you have afforded us of presenting our views on this issue.

As has been pointed out time and again in discussions of this issue, the Social Security system confronted a very serious financial crisis in the middle 1970s. The crisis grew out of the fact that the method used in the 1972 amendments to make cost of living adjustments resulted in the overindexing of benefits for future beneficiaries.

This was due to a legislative mistake. The financing of the Social Security system, namely the rate of payroll contributions, had been based on the replacement of the average worker's earnings at around 40 percent.

If the 1972 mistake had not been corrected, the average worker's income would have been replaced at a rate well in excess of 40 percent. In fact, it was estimated that as a result of the mistake, in the long run, benefits would have exceeded the wages they were intended partially to replace.

It is clear that if an average worker's replacement rate, well in excess of 40 percent, namely, up to 55 percent or more, had remained in effect, either the Congress would have had to enact a sharp increase in payroll contributions, or the system would have been bankrupt.

In fact, the Social Security system estimated that combined payroll contributions would have had to be increased to 27 percent of payroll.

Confronted with this serious situation, the Congress very wisely decided in 1977 to enact a new method of benefit computation which stabilized replacement rates, that is, the relationship of benefits to recent earnings.

For the average worker the replacement rate is now approximately 42 percent, and will be kept at approximately 42 percent unless there is a fundamental change in the law.

Many persons who had retired during the period that the mistake had been in effect, those born between 1910 through 1916, had obviously received a windfall.

Congress never intended that they should get benefits based on the high replacement rate that they were receiving. The Members of Congress could have decided that the windfall should cease as soon as the mistake was corrected.

That would have been an understandable decision, because of the seriousness of the mistake. But instead, Congress said in effect that they did not want to lower the benefits of workers who had already retired, and were already receiving those benefits.

They recognized that if they did so, it would be very difficult for the retired workers to replace the windfall. Thus a notch was created, because of the higher benefits received by those who retired under the 1972 law, as compared with those who had received benefits under the replacement rate set forth in the new law, namely, the 1977 law.

Then Congress gave consideration to the situation confronting another group: those who would be receiving benefits soon after the new law went into effect, namely, those born between 1917 and 1921.

And they decided to establish a 5-year transitional provision. Because of this provision, some of those in the transitional group are receiving better treatment than those who became eligible later, under the 42 percent policy.

I believe that a comparison of the average worker's rate of replacement of income, by persons born in various years, is the key to understanding the action taken by Congress in 1977.

Comparison of benefits can be misleading, because quite a number of other factors enter into these determinations, such as the age at which a person decides to draw benefits, and his or her earning record.

A table prepared by the Social Security Administration shows that for a person born in 1905—incidentally, that is my own date of birth—the average worker's replacement rate of income would be 34 percent.

Then you go to 1907, and the average worker's replacement rate of income is 37 percent. The replacement average rate for those born in 1910, 42 percent; in 1912, 44 percent; in 1915, 51 percent; and 1916, 54 percent.

The impact of the windfall for those born in 1912, 1915 and 1916 is clear. That's when Congress stepped in and said no more as far as the windfall was concerned.

But Congress did provide for the transitional period. As a result those born in 1917, if they drew benefits at 65, drew them at a replacement rate of 48.7 percent; if they were born in 1918, the replacement rate was 45.8; in 1919, 42.9 percent; and in 1920, 41.3 percent.

Now, Congress could have decided in 1977 to have kept a larger number of beneficiaries at the higher average workers replacement of income rate provided by the 1972 amendment. If it had done so, it would have been confronted with the necessity of increasing payroll contributions.

If Congress now decides, for example, to treat those born from 1917 to 1921 in a manner approximating those born between 1912 through 1916, there will be an increase in expenditures from the Social Security trust fund.

If these expenditures are financed by utilizing the reserves in the trust fund, it will weaken the financial foundation on which the system rests. There is no extra money in Social Security.

The reserves are being built up as a contingency against unexpected changes in economic performance, and to meet greater expenditures later.

If the increased expenditures growing out of a new notch are covered by increasing payroll taxes, it obviously will add to the present tax burden.

There has been, Mr. Chairman, some discussion about financing legislation designed to increase the windfall for those born between 1917 and 1921 by utilizing some of the funds now in the reserve.

And I quote in my statement from the report of the trustees in 1986. They arrived at the conclusion that at the present time, the system is in close actuarial balance. And I underline the word "close".

Any proposal to increase the number of beneficiaries who would participate in the windfall payments because of the 1972 mistake, or that would increase the amount of the windfall for present beneficiaries, would result in either weakening the financial integrity of the Social Security system, or would require an increase in payroll contributions.

I have had the privilege of watching and being involved in the evolution of the Social Security system over a period of about 50 years. I do not know of any program that our system of government has introduced and stayed with that has been handled in a more responsible manner than the Social Security system.

It was my observation before I became Secretary of HEW; my observation during the period I served as secretary; and my observation since then; that whenever Congress has decided to increase Social Security benefits, it has always in a responsible manner provided for increased revenues.

There should be no deviation from this fundamental policy. The Congress has built in to the Social Security law a provision for a periodic review of the entire system by an advisory council appointed by the Secretary of HHS, a council charged with reporting to both the president and the Congress.

The next review will take place in 1989. The issue now being considered by this committee is the type of issue that the Congress should consider having the 1987 advisory council weigh along with all other issues that may still be pending at that time, relative to benefits and relative to revenues. I think experience has taught us that this periodic evaluation of the system as a whole leads to recommendations that if implemented contribute to the maintenance of the integrity of the system.

I believe that the action taken by Congress in 1977 was responsible and considerate of the situation confronting those who are already drawing benefits, and those about to begin drawing benefits. Any proposed modification of that action is the kind of proposal that should be weighed along with all the other proposals that would be on the next advisory council agenda.

Thank you.

[The statement of Dr. Flemming follows:]

STATEMENT OF ARTHUR S. FLEMMING, COCHAIR, SAVE OUR SECURITY

I am appearing before the committee today as Co-Chair of SOS, Save Our Security, a coalition of 110 national, State and local organizations dedicated to maintaining the integrity of our Social Security System. I am attaching to my statement a list of the organizations that subscribe to the basic position taken in the statement.

As a coalition we are concerned, and I personally am concerned, that a group of social security beneficiaries believe that the Congress has acted in such a manner as to result in their being treated unfairly. I personally appreciate, Mr. Chairman, your decision and the decision of your colleagues to provide those who feel this way with the opportunity of presenting their point of view to you. We likewise appreciate the opportunity that you have afforded us of presenting our views on this issue.

As has been pointed out time and again in discussions of this issue, the Social Security System confronted a very serious financial crisis in the middle 1970s. The crisis grew out of the fact that the method used in the 1972 amendments to make cost of living adjustments resulted in the over-indexing of benefits for future beneficiaries. This was due to a legislative mistake.

The financing of the Social Security System, namely, the rate of payroll contributions, had been based on the replacement of the average worker's earnings at around 40 percent.

If the 1972 mistake had not been corrected the average worker's income would have been replaced at a rate well in excess of 40 percent. In fact, it was estimated that as a result of the mistake, in the long run benefits would have exceeded the wages they were intended partially to replace.

It is clear that if an average worker's replacement rate well in excess of 40 percent, namely, up to 55 percent or more, had remained in effect either the Congress would have had to enact a sharp increase in payroll contributions or the system would have been bankrupt. In fact the Social Security Administration estimated that combined payroll contributions would have had to be increased to 27 percent of payroll.

Confronted with this serious situation, the Congress very wisely decided in 1977 to enact a new method of benefit computation which stabilized replacement rates, that is, the relationship of benefits to recent earnings. For the average worker the replacement rate is now approximately 42 percent and will be kept at 42 percent unless there is a fundamental change in the law.

Many persons who had retired during the period that the mistake had been in effect, those born between 1910 through 1916, had obviously received a windfall. Congress didn't intend that they should get benefits based on the high replacement rate that they were receiving. The members of Congress could have decided that the windfall should cease as soon as the mistake had been corrected. That would have been an understandable decision because of the seriousness of the mistake.

But instead, Congress said in effect that they did not want to lower the benefits of workers who had already retired and were already receiving those benefits. They recognized that if they did so it would be very difficult for the retired workers to replace the windfall.

Thus a notch was created because of the higher benefits received by those who retired under the 1972 law as compared with those who would receive benefits under the replacement rate set forth in the new law, namely, the 1977 law.

Then Congress gave consideration to the situation confronting those who would be receiving benefits soon after the new law went into effect, namely, those born between 1917 and 1921. They decided to establish a five-year transitional provision. Because of this provision some of those in the transitional group are receiving better treatment than those who became eligible later.

I believe that a comparison of the average worker's rate of replacement of income by persons born in various years is the key to understanding the action taken by Congress in 1977. Comparison of benefits can be misleading because quite a number of other factors enter into these determinations, such as the age at which a person decides to draw benefits and his or her earning record.

A table prepared by the Social Security Administration shows that for a person born in 1905 the average worker's replacement rate of income would be 34 percent. Then you go to 1907, and the average worker's replacement rate of income is 37 percent. The replacement average rate for those born in 1910 was 42.3 percent, in 1912, 44.8 percent, 1915, 51 percent, and 1916, 54 percent. The impact of the windfall for those born in 1912, 1915, and 1916 is clear. That's when Congress stepped in and said "no more" as far as the windfall was concerned.

But Congress did provide for the transitional period. As a result those born in 1917, if they drew benefits at 65, drew them at a replacement rate of 48.7 percent. If they were born in 1918, the replacement rate was 45.8 percent; in 1919, 42.9 percent; and in 1920, 41.3 percent.

Congress could have decided in 1977 to have kept a larger number of beneficiaries at the higher average worker's replacement of income rate provided by the 1972 amendments. If it had done so, it would have been confronted with the necessity of increasing payroll contributions. It would also have been confronted with the pressures of those who were just outside any new "notch" it might have established to be included under the higher replacement rate. Responding to these pressures would have led to a situation where the system would once again have been confronted with a financial crisis. This is undoubtedly why Congress decided to establish the notch at the point it did.

If Congress now decides, for example, to treat those born from 1917 to 1921 in a manner approximating those born between 1912 through 1916, there will be an increase in expenditures from the Social Security Trust Fund.

If these expenditures are financed by utilizing the reserves in the Trust Fund it will weaken the financial foundation on which the system rests. There is no extra money in social security. The reserves are being built up as a contingency against unexpected changes in economic performance and to meet greater expenditures later. If the increased expenditures growing out of a new "notch" are covered by increasing payroll taxes it obviously will add to the present tax burden.

There has been, Mr. Chairman, some discussion about financing legislation designed to increase the windfall for those born between 1917 and 1921 by utilizing some of the funds now in the Trust Fund reserves.

The 1986 annual report of the trustees of the Social Security System contains the following statement: "The actuarial estimates indicate that the assets of the Old Age and Survivors Insurance and Disability Insurance Trust Funds will be sufficient to permit the timely payment of OASDI benefits for many years into the future. The long-range 75-year estimates indicate that under the intermediate assumptions the OASDI program will experience about three decades of actuarial surpluses with continuing actuarial deficits thereafter. The surpluses in the first part of the 75-year project period approximately offset the later deficits so that the program as a whole is said to be in close actuarial balance." (Underlining supplied)

Any proposal to increase the number of beneficiaries who would participate in the windfall payments because of the 1972 mistake or that would increase the amount of the windfall for present beneficiaries would result in either weakening the financial integrity of the Social Security System or require an increase in payroll contribution.

I have had the privilege of watching and being involved in the evolution of the Social Security System over a period of about 50 years. I do not know of any program that our system of government has introduced and stayed with that has been handled in a more responsible manner than the Social Security System.

It was my observation before I became secretary of HEW, my observation during the period I served as secretary of HEW, and my observation since then, that whenever Congress has decided to increase social security benefits it has always in a responsible manner provided for increased revenues. There should be no deviation from this fundamental policy.

The Congress has built into the Social Security law a provision for a periodic review of the entire system by an advisory council appointed by the secretary of the Department of Health and Human Resources, a council charged with reporting to both the President and the Congress. The next review will take place in 1989.

The issue now being considered by this committee is the type of issue that the Congress could consider having the 1987 Advisory Council weigh along with all other issues that may still be pending at that time relative to benefits and relative to revenues. I think that experience has taught us that this periodic evaluation of the system as a whole leads to recommendations that if implemented contribute to the maintenance of the integrity of the system.

I believe that the action taken by Congress in 1977 was responsible and considerate of the situation confronting those who were already drawing benefits and those about to begin drawing benefits. Any proposed modification of that action is the kind of proposal that should be weighed along with the other proposals that will be on the Advisory Council's agenda.

Co-signers of Arthur S. Flemming's
Notch Testimony
Before the House Ways and Means Committee
Subcommittee on Social Security

American Association of Retired Persons (AARP)
National Council of Senior Citizens (NCSC)
National Council on the Aging (NCOA)
Older Women's League (OWL)
Villers Advocacy Associates
National Center and Caucus for the Black Aged
National Council of La Raza
Child Welfare League
American Federation of State, County and Municipal Employees
AFSCME Retiree Program
American Council of the Blind
National Alliance for the Mentally Ill (NAMI)
National Mental Health Association (NMHA)
Health Security Action Council (HSAC)
Save Our Security (SOS) Coalition of New York
Father Tom Harvey, Executive Director of Catholic Charities
National Mental Health Law Project
National Assoc. of Retired Senior Volunteer Program Directors
National Assoc. of Foster Grandparent Program Directors
National Assoc. of Senior Companion Project Directors
American Federation of Government Employees (AFGE)
World Institute on Disability
International Association of Machinists (IAM)
Bakery, Confectionary, and Tobacco Workers International Union
International Ladies Garment Workers Union
Epilepsy Foundation of America
Association for Retarded Citizens of the United States (ARC)
United Auto Workers
United Auto Workers, Social Security
Spina Bifida Association of America
United Cerebral Palsy of America
National Consumers League
Retail, Wholesale and Department Store Union
A. Philip Randolph Institute
Carpenters International Union
Communication Workers of America
International Brotherhood of Electrical Workers
American Veterans Committee
International Union of Electrical Workers
National Urban League
National Council of Negro Women

Chairman **Jacobs**. Thank you, Dr. Flemming.

Mr. **Gibbons**. Mr. Chairman.

Chairman **Jacobs**. Mr. Gibbons.

Mr. **Gibbons**. Mr. Chairman, I want to commend Dr. Flemming for the fine work he has done for his country for many a generation, and for the courage he has to come here and tell it like it is.

Thank you, Doctor.

Chairman **Jacobs**. Mr. Archer.

Mr. **Archer**. Dr. Flemming, I also want to congratulate you on a very well prepared statement.

And I think it might be interesting to note the groups that are cosigners with you on this statement. The American Association of Retired Persons; the National Council of Senior Citizens; the National Council on the Aging; Older Women's League; National Center and Caucus for the Black Aged; and on and on and on, a list too long, really, for me to read.

But it is good to see that you have the support from those types of groups for the statement that you presented to the committee today.

Chairman **Jacobs**. Dr. Flemming, I want to add to the encomiums that have been indicated by Mr. Gibbons in your case. I was too young to vote in the election for your President when you were Secretary of Health and Human Services, General Eisenhower, and in candor, I probably wouldn't have voted for him, the way I was thinking in those days.

But as I said earlier in these hearings, I had my thinking over the years messed up with some facts. And one set of facts is that on three occasions, President Eisenhower was urged by his Vice President and Admiral Radford, the Chairman of the Joint Chiefs, to take our country into three wars—one was Dien Bien Phu in 1954; the other was the Mideast war in 1956; and then the Hungarian uprising—and in each case President Eisenhower, knowing something about war, declined to do so.

Instead, he built an interstate highway system which was self-financing. I find that almost scriptural in its propriety, and I might add that instead of running up the national debt say another trillion or so that we would be facing today, he made this splendid means of travel where we as a free people can go back and forth with great facility throughout the country.

So I echo the remarks of Mr. Gibbons. You are one of the great Americans, and we are very honored—very honored—to have you testify before the committee and give your honest views, whatever those honest views might be.

Mr. **Flemming**. Mr. Chairman, may I express deep appreciation for your comments. And may I express appreciation for your comments relative to President Eisenhower.

During President Eisenhower's first term, I was in his Cabinet as Director of the Office of Defense Mobilization. Therefore, I was a member of the National Security Council.

I participated in the discussions in the National Security Council that led to the decisions you have identified.

Chairman **Jacobs**. Well, then, bless you all the more. There are a lot of men who have grown old without dying in unnecessary wars because of you.

Mr. FLEMMING. Well, I regarded it as a very real privilege to have had the opportunity of participating in those discussions and listen to President Eisenhower arrive at those particular conclusions.

I appreciate the opportunity of being here with you and your colleagues.

Chairman JACOBS. Mr. Levin had a question, I think.

Mr. LEVIN. Just a brief question, Dr. Flemming, and I join in the welcome to you.

Members of Congress get paid, so we can be booed or applauded. I guess it is like anybody else at a ballpark or theater, people can express themselves; although that isn't usually allowed at hearings.

But you and those who will follow you—Bob Ball and others—are not getting paid for your service. I know it is a labor of love, and whether people agree with you, I hope they join in our full respect for your decades of public service.

Could I just ask you quickly, was this matter considered—and maybe I should ask Mr. Ball this also—in the 1983 commission deliberations, do you know, the issue of the notch?

Mr. FLEMMING. Well, my understanding is, if it did receive any consideration, it was very little. But Bob Ball is going to testify, and he had the opportunity of course of serving as a member of that commission, and he can respond directly to that question.

Mr. LEVIN. All right, then, one last quick question. There has been reference by you and others to funding, to resources.

In your view, if there were some money available in the trust fund, how would you rank this in terms of equities?

Mr. FLEMMING. Well, when I made the suggestion that this is the kind of issue that should be looked at by a Social Security advisory council, I certainly had in mind the fact that this should be looked at along with other issues confronting the system at the present time.

For example, some of the witnesses have described some of the problems that confront the group that was born from 1917 to 1921. Well, those are the same problems that confront many, many persons who are beneficiaries under the Social Security system.

I am sure that a good case could be made for increasing that average of 42 percent, let's say up to 43 or 44 percent, in order to give people the opportunity of dealing with some of these problems in a more effective way.

We know there is built into the system inequities as far as women are concerned. This committee, for example, has taken a look at earning sharing proposals. Certainly it should be looked at.

Personally, I would weigh the kind of issues I have just identified. In weighing them, I would put them ahead of the notch issue because in effect when the Congress acted in 1977, they established a new tier of benefits, people who had benefited from the windfall, those who were already receiving benefits. They said, that's one group, and because you are already drawing those benefits we won't change them.

That created a tier all by itself. But then they took a look, and they said, there is another group of people have not started to draw benefits yet, but they are going to start to draw them fairly soon.

We think that we ought to phase in the program as far as they are concerned.

And so Congress very deliberately developed a phased in program. Now, I'm sure people can say, well, here is a different kind of a phased-in program that would be a little bit more equitable.

But Congress did consider this group, and they did decide to phase them in. So here is a second tier.

But then you have got all the other beneficiaries who are drawing at this rate of 42 percent. And they have essentially the same basic problems that have been described here that confront the second tier, or the first tier that I have described.

I definitely think it would be unwise to consider the issue of changing the benefits for the second tier by itself. I think it ought to be considered in the light of the other issues that confront us in the Social Security system, and I think there are other issues that are entitled to a higher ranking.

Chairman **Jacobs**. Thank you very much, Dr. Flemming.

Dr. Flemming, thank you for your testimony. The next witness is Michael Carozza from the Department of Health and Human Services.

STATEMENT OF MICHAEL C. CAROZZA, DEPUTY COMMISSIONER FOR POLICY AND EXTERNAL AFFAIRS, SOCIAL SECURITY ADMINISTRATION, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. **Carozza**. Thank you, Mr. Chairman, and members of the committee.

I appreciate the opportunity to testify in connection with your consideration of the notch and I would like to summarize my statement and submit the full statement for the record.

One of Commissioner Hardy's highest priorities is to educate the public about Social Security, and the notch issue warrants a complete explanation.

I have three charts with me today that illustrate the treatment of workers who have their benefits computed under the flawed 1972 computation method, and under the new 1977 method. The charts compare replacement rates, that is, the initial benefits as a percent of preretirement-retirement earnings, for workers who retire at age 65, and who always had average earnings.

I think the charts will illustrate the points that the chairman was just making a few minutes ago with Mr. DeFazio.

Chart 1, on my right, shows replacement rates for workers with average earnings retiring at age 65, as they were anticipated under the economic conditions that we expected in 1977, both with and without enactment of the 1977 benefit formula.

The red line shows that, without the amendments, replacement rates were anticipated to continue to rise gradually to about 53 percent by the turn of the century.

The green line shows that, under the amendments, replacement rates were expected to decline from 47 percent to 42 percent, and then stabilize at that level.

Chart 2 shows what really happened to replacement rates. The projections that we showed on chart 1 are overlaid, so a comparison can be made between the anticipated and the actual results of the 1977 legislation.

The red line—the top line—shows that replacement rates soared under the old law because of economic conditions, primarily high inflation, reaching a high of 54 percent before the 1977 amendments took effect. If old law had remained in effect replacement rates would have continued to climb to 66 percent for an average worker by the year 2000.

The green line—the lower line—shows that replacement rates under the amendments were initially higher than expected because of economic conditions. However, you can see that replacement rates stabilized at approximately the same level as was estimated in 1977, fulfilling the long-term Congressional intent, and I think the GAO report supports this view.

Chart 3 illustrates benefits in terms of replacement rates. It shows that the issue is not so much a sudden decrease in benefits for people under the new law, but rather, a steep increase in benefits for workers who had their benefits figured under the flawed 1972 computation method.

Chart 3 shows: first, the steep increase in replacement rates for workers born just before 1917. This group is the windfall group; somewhat lower replacement rates for workers born just after 1916 than for the windfall group; replacement rates for the group born just after 1916, that are as high as, or higher than any other group of similar retirees except for the windfall group. The GAO report supports this assessment also; and finally, it shows replacement rates that stabilize at about 41 percent. Thus a worker who generally has average earnings can expect Social Security benefits to replace about 41 percent of the earnings he or she has in the year before retirement.

Several notch bills have been introduced to fix this problem by increasing benefits for people who were born in 1917 and later. They would extend all or some part of the unintended windfall benefit to additional groups of people. As a result, these bills are very expensive. The cost, over 1988 to 1996, ranges from $24 billion to more than $375 billion. The difference relates directly to how much of a windfall is provided to people born after 1916, and how many people born after 1916 participate in the extension of the windfall.

Mr. Chairman, the trust fund's financial soundness depends upon the continuance of the policies established by the 1983 bipartisan Commission. Consistent with the Commission's policies, the assets that are currently accumulating are an essential reserve that is required to meet benefit obligations when the baby boom generation retires. The GAO report supports the view that these assets are needed to help pay the benefits of future retirees, and cautions against their use to provide higher benefits for people born after 1916.

The only way to pay for a proposal that would extend the windfall to additional groups would be to increase Social Security taxes or cut other benefits, either of which would be a departure from the policies established by the bipartisan Commission. And, as the General Accounting Office points out, the imposition of additional taxes on current workers can be viewed as inequitable.

Mr. Chairman, in conclusion: some workers born between 1910 and 1916 receive windfall benefits as a result of a flaw in the 1972 computation method; no inequity has occurred with respect to workers born after 1916. All workers born after 1916 receive appropriate benefits at the level that Congress intended when it passed the 1977 legislation; the reason the difference between benefits under old and new law was somewhat larger than anticipated was not because people subject to the new computation method got less than had been intended. Rather, it was because people who had their benefits computed under the old method were getting much more than anyone had anticipated due to economic conditions; and consistent with the recommendations of the bipartisan Commission, the trust funds are currently accumulating assets. They are an essential reserve needed to pay future retirees. There is no surplus in the trust fund reserves to pay for extending the windfall benefits received by the 1910 to 1916 group to additional workers.

That concludes my testimony. I will be happy to answer any questions you may have.

[The statement of Mr. Carozza follows:]

STATEMENT OF MICHAEL C. CAROZZA, DEPUTY COMMISSIONER FOR POLICY AND EXTERNAL AFFAIRS, DEPARTMENT OF HEALTH AND HUMAN SERVICES

I appreciate the opportunity to present this statement to your committee in connection with your consideration of the "notch." One of Commissioner Hardy's highest priorities is to educate the public about Social Security, and the notch issue warrants a complete explanation. I appreciate this opportunity to clarify the history of the notch issue.

First, though, I would commend the Government Accounting Office (GAO) for its intensive study of the notch. The GAO report should help to promote understanding of this complex issue.

Introduction

The notch has been defined in different ways by different people. Generally, however, it refers to the difference in benefits payable to workers born after 1916, who have their benefits computed under the new and more equitable computation method enacted in 1977, and benefits payable to workers with similar earnings histories born between 1910 and 1916, who have their benefits computed under a flawed computation method enacted in 1972. In particular, some beneficiaries born in 1917-21 believe that they are treated unfairly compared to those born in 1916 and earlier.

In actuality, the "notch" occurs because workers born between 1910 and 1916 receive unintended windfall benefits. They receive these windfall benefits because of the flawed 1972 benefit computation method which overcompensated for inflation and allowed for inequitable wage replacement ratios. This method was corrected by the 1977 amendments, and all workers born after 1916 have their benefits computed under the new and more equitable method.

No inequity has occurred with regard to those people born in 1917 and later. They are receiving appropriate benefit levels that were intended by Congress and that compare favorably to benefit levels for people born prior to 1910, who did not profit from the unintended windfall caused by the flawed 1972 computation method. All of the bills that have been introduced to deal with the notch would extend the unintended windfall benefits to more groups of beneficiaries and would cost from $24 billion to $375 billion over the next 10 years according to estimates of the Social Security Chief Actuary.

The financial soundness of the Social Security trust funds rests on the policies developed by the bipartisan National Commission on Social Security Reform and enacted in the Social Security Amendments of 1983. The Commission unanimously recommended that Congress "not alter the fundamental structure of the Social Security program or undermine its fundamental principles." Due to the policies adopted by the Commission, the Social Security trust funds are continuing to grow. The assets that will be accumulated are not a surplus, but rather an essential reserve to meet the program's benefit obligations as the "baby boom" generation retires. In addition, the bipartisan budget agreement of November 20, 1987, precludes the introduction of any costly legislative proposals by Congress or the Administration.

Effects of 1972 Legislation

A review of the major events that led to the current notch situation is appropriate. In 1972, in order to maintain the purchasing power of Social Security benefits after a worker retires, Congress provided for automatic cost-of-living adjustments (COLAs) beginning in 1975. However, the computation method in the 1972 legislation was flawed. It overadjusted the benefits of workers retiring in the future for increases in the cost of living.

This overadjustment occurred for two reasons. First, cost-of-living increases that were meant for retired workers were also incorrectly built into the future benefits of workers who had not yet retired. Second, workers' wage increases also generally reflect cost-of-living increases. The flawed benefit calculation took into account increases in both wages and prices. Thus, during a person's working years, his or her future benefits were increased more than necessary to reflect increases in the cost of living.

This overadjustment of benefits, combined with the very high inflation of the 1970's, resulted in unanticipated increases in overall benefit levels. Benefits for people initially affected by the flawed computation method--generally those born in 1910 and later--increased dramatically. It was projected that benefits for many workers retiring in the future would substantially exceed their preretirement earnings.

The dramatic increase in benefits under the flawed benefit computation method caused an increase in program costs. This increase in costs, combined with the adverse economic conditions of high inflation, high unemployment, and sluggish wage growth that were encountered during the 1970's, caused the annual outgo from the Social Security trust funds to exceed annual income. Thus, the overadjustment of benefits for inflation was a major factor in the projected long-term deficit and was expected to have a significant impact on trust fund balances by the mid-1980's.

Beginning in 1975, intense consideration was given to fixing the flaw in the 1972 legislation by Congress, the Administration, and the 1975 Advisory Council on Social Security. As a result of 3 years of exhaustive study, in 1977, Congress enacted a major, well-thought-out revision of the Social Security benefit structure which was designed to put a stop to runaway benefits, restore more appropriate benefit rates, and help solve the financing problems facing Social Security at that time.

This new and more equitable 1977 computation method applies to all workers born in 1917 and later. It provides for indexing a worker's lifetime wages to keep them up to date with average wage increases. It also keeps benefits up to date with the cost of living by providing COLAs once the person reaches age 62. Under this method, replacement rates--benefits expressed as a percent of preretirement earnings--were stabilized. This means that over time workers with similar earnings histories will generally receive Social Security benefits that replace the same percent of their preretirement earnings, regardless of the pattern of increases in wages and prices in the economy. Thus, the problem of ever increasing replacement rates caused by the flaw in the 1972 computation method will not recur.

Effects of 1977 Legislation

In addition to revising the flawed computation method in 1977, Congress made a number of related changes. First, replacement rates under the new computation method were deliberately set approximately 5 percent lower for age-62 retirees than the rates that were expected to occur under prior law in January 1979. This change was made in order to eliminate some of the unintended rise that had occurred under the old computation method. However, inflation after enactment of the 1977 amendments was higher than had been expected, causing replacement rates under the old computation method to rise more rapidly than had been anticipated. As a result, when the new computation method went into effect in 1979, the reduction in replacement rates at age 62 was about 7 percent, rather than 5 percent.

Second, people born before 1917 were allowed to continue to receive benefits under the old, flawed computation method that overcompensates for inflation. This was done because Congress wished to avoid reducing benefits for people already receiving them. However, it has the effect of increasing the difference in benefit amounts under the old and new methods.

Third, Congress provided a transitional computation method for workers born in 1917-21. It was designed to give the greatest protection to workers who reached age 62 and retired just after the new computation method became effective. This group was most likely to have made retirement plans based on the benefit levels under old law. As pointed out in the GAO report, the transition provisions generally worked as intended.

Thus, the benefit levels provided under the 1977 legislation were both intended and appropriate. Benefits under the new method compare favorably with the level of benefits for people who reached age 62 before the unintended rise occurred in the 1970's, that is, people born before about 1910. Replacement rates for workers receiving benefits under the new computation provisions also are generally as high as, or higher than, replacement rates for comparable workers who retired in the early or mid-1970's before the unintended rise occurred. The GAO report supports this assessment and goes on to note that many in the transition group receive higher replacement rates than those retiring after the transition group.

The true situation is that people born in 1910-16, who receive benefits computed under the pre-1977 method, are receiving windfall benefits because that computation method overcompensated for inflation. What the beneficiaries born after 1916 want is the same unintended windfalls that those born in 1910-16 are getting. One of the few concerns we have with the GAO report is that it does not give sufficient emphasis to the extent to which the notch problem is one of windfall benefits being paid to workers who were born in the years 1910-16.

Impact of Economic Conditions after 1977 on Replacement Rates

As I noted previously, economic experience after 1977 had a major impact on the growth in replacement rates, so actual experience in the years immediately following enactment of the 1977 amendments varied from what was anticipated at the time of enactment. Under the economic conditions expected in 1977, it was anticipated that replacement rates under old law would continue to rise gradually, while replacement rates under the new law were expected to stabilize in the near term at levels somewhat lower than anticipated to prevail under old law in 1979.

However, the rapid inflation after 1977, combined with the decline in real earnings in some years, caused replacement rates for workers whose benefits were computed under the flawed 1972 computation method to increase to levels much higher than either intended or expected. While the high inflation after 1977 also resulted in replacement rates being higher than anticipated during the early years of the 5-year transition, replacement rates stabilized at approximately the level that Congress intended when the 1977 amendments were passed. Thus, it appears that congressional intent has been fulfilled.

I would like to emphasize that the reason the difference between benefits under old and new law was somewhat larger than anticipated was not because people subject to the new computation method got less than had been intended. Rather, it was because people who had their benefits computed under the old method were getting much more than anyone had anticipated due to economic conditions.

Explanation of Attached Charts

I have brought with me today four charts that illustrate the treatment of workers who have their benefits computed under old and new computation methods by comparing replacement rates (initial benefits as a percent of preretirement earnings) and benefits for workers who retire at age 65 and who always had average earnings. I hope that these charts will help to clarify the points that I have been making.

I would like to emphasize that these charts are illustrative only. Most workers do not have such regular earnings patterns and actual benefits and replacement rates will vary accordingly. However, the basic principles illustrated by the charts will hold true, regardless of actual earnings patterns.

These charts show clearly that the problem we are dealing with is not so much a sudden decrease in benefits for people under the new law, but, rather, a steep increase in benefits for the workers who had their benefits figured under the flawed 1972 computation method.

Chart 1 illustrates replacement rates for workers with average earnings retiring at age 65 as they were anticipated in 1977 with and without enactment of the 1977 benefit formula. This chart shows that:

o Without the amendments, replacement rates were anticipated to continue to rise gradually to about 53 percent by the turn of the century.

o It was also anticipated that under the amendments replacement rates would decline from 47 percent to 42 percent and would then stabilize at that level.

Chart 2 shows what really happened to replacement rates. Actual experience is overlayed on the first chart so a comparison can be made between the anticipated and actual results of the 1977 legislation. This chart shows that:

o Replacement rates soared under the old law because of economic conditions, reaching a high of 54 percent. If old law had remained in effect, it is now estimated that replacement rates would have continued to climb to 66 percent by the year 2000.

o Replacement rates under the amendments were initially higher than expected because of economic conditions. However, replacement rates stabilized at approximately the same level as was estimated in 1977. Thus, over the long term congressional intent was fulfilled despite the impact of unanticipated economic conditions.

Chart 3, which illustrates benefits in terms of replacement rates shows:

o A steep increase in replacement rates for workers born just before 1917. This group is the windfall group.

o Somewhat lower replacement rates for workers born just after 1916 than for the windfall group.

o Replacement rates for the group born just after 1916 that are as high as, or higher than, any other group of similar retirees except the windfall group.

- Replacement rates through the year 2000 that stabilize at about 41 percent. Thus, a worker who generally has average earnings can expect Social Security benefits to replace about 41 percent of the earnings he or she has in the year before retirement.

Chart 4, which illustrates benefits in terms of 1988 dollars, shows that:

- Workers born in the 1917-21 period--frequently characterized as the notch years--receive benefits that are higher than any group born before them except for workers born in the 1910-16 period who profited from the flawed 1972 computation method.
- Workers retiring in the future are projected to receive increasingly higher benefits even though these benefits still replace only 41 percent of the last year's earnings.
  - The increase is a direct effect of the new indexed computation method and the economic assumption that wages will increase faster than prices in the future.
  - Since people retiring in the future are assumed to have earned higher wages, the amount of their benefits will be higher.

You can also see from these charts that any proposal that would increase benefits for workers born after 1916 would simply extend the unintended windfall benefits to new groups of Social Security beneficiaries. The cost of such an extension would have to be borne by current and future workers.

Current Notch Proposals

Several bills have been introduced which are intended to fix the notch. These bills would reduce or eliminate the difference in benefits under the old and new computation methods by increasing benefits for people who were born in 1917 and later. That is, they would extend all or at least some part of the unintended "windfall" to additional groups of people. As a result, these bills are very expensive; the cost over 1988-96 ranges from $24 billion to more than $375 billion. The difference in cost is related directly to how much of a windfall is provided to people born after 1916 and how many people born after 1916 participate in this extension of the windfall.

I want to reiterate that the trust funds' financial soundness depends upon the continuance of the policies established by the 1983 bipartisan Commission. Consistent with the Commission's policies, the assets that are currently accumulating are an essential reserve that is required to meet the benefit obligations when the "baby boom" generation retires. The GAO report supports the view that these assets are needed to pay the benefits of future retirees and cautions against their use to provide higher benefits for people born after 1916.

The only way to pay for a proposal that would extend the windfall to additional groups would be to increase Social Security taxes or cut other benefits, either of which would be a departure from the policies established by the bipartisan Commission. And, as GAO points out, the imposition of additional taxes on current workers can be viewed as inequitable.

Conclusion

In summary:

- Some workers born between 1910 and 1916 receive windfall benefits as a result of a flaw in the 1972 computation method.

- No inequity has occurred with respect to workers born after 1916. All workers born after 1916 receive appropriate benefits. These benefits are at the level that Congress intended when they passed the 1977 legislation which corrected the flaw in the 1972 computation method.

- Consistent with the recommendations of the bipartisan Commission, the trust fund assets are currently accumulating. And these assets are an essential reserve needed to pay future retirees. There is no surplus in the trust fund reserves to pay for extending the windfall benefits received by the 1910-16 group to additional workers.

Attachments

CHART 1

Growth in Social Security Replacement Rates for Average Earners Retiring at Age 65, as Anticipated in 1977

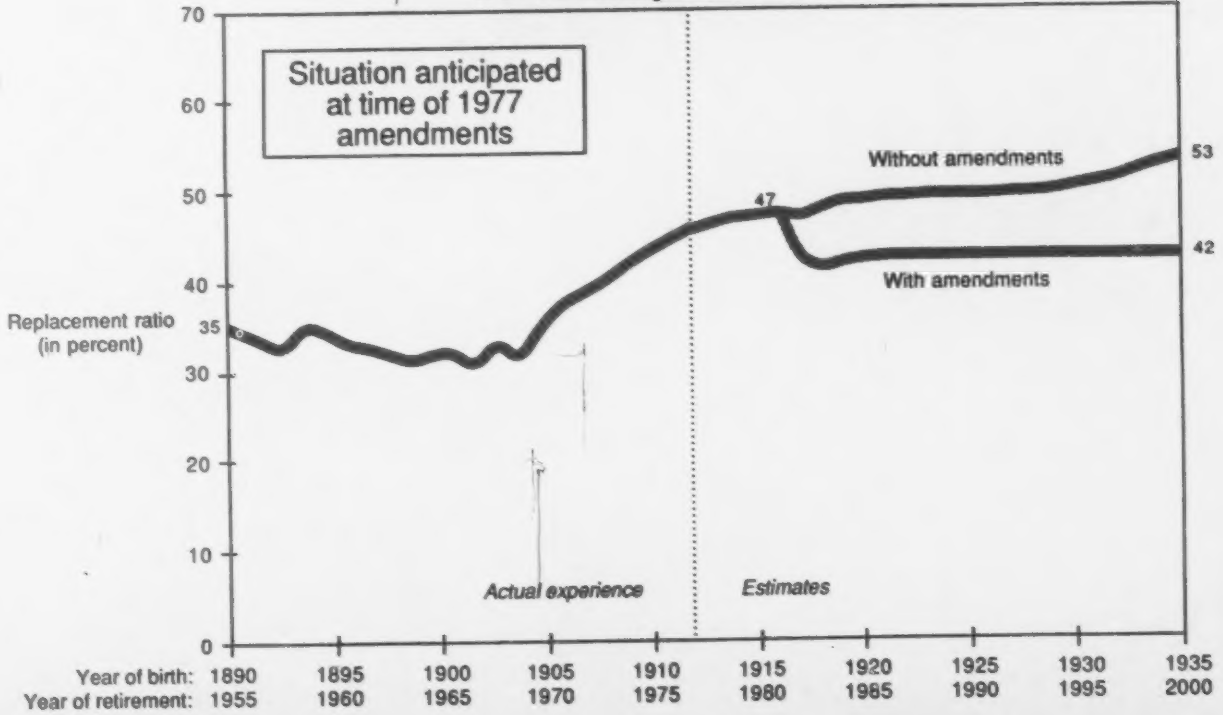


CHART 1

CHART 2

Anticipated vs. Actual Growth in Replacement Rates for Average Earners Retiring at Age 65, and Effects of 1977 Amendments

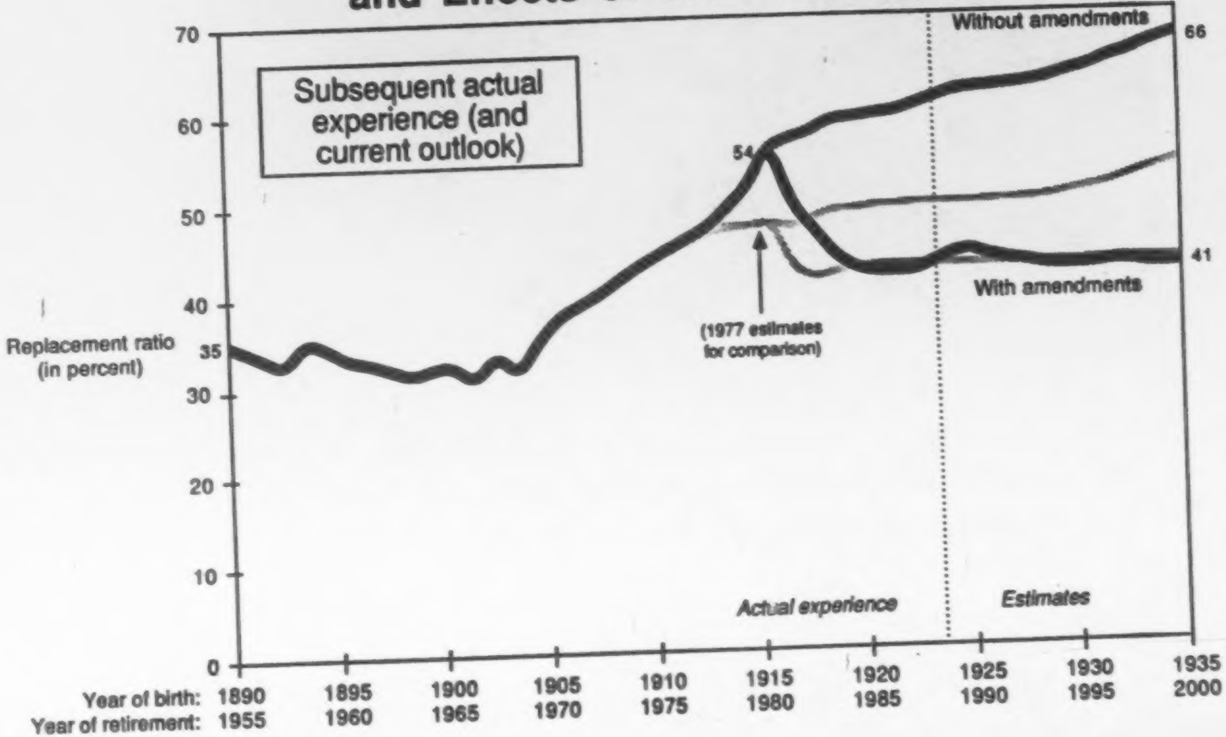
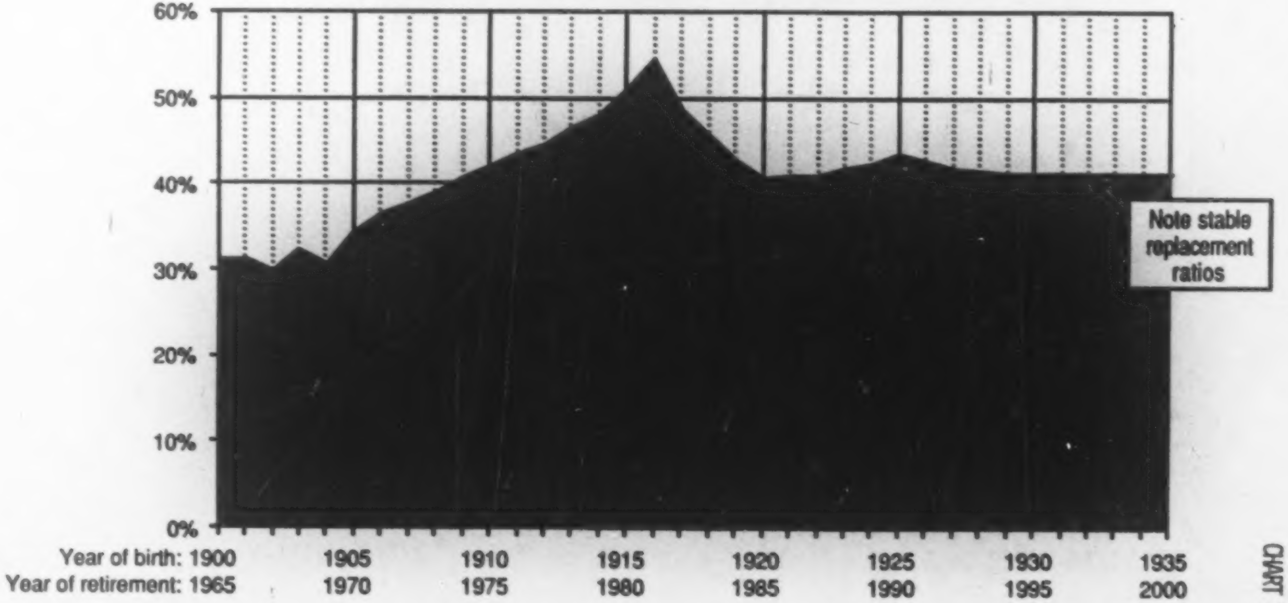


CHART 2

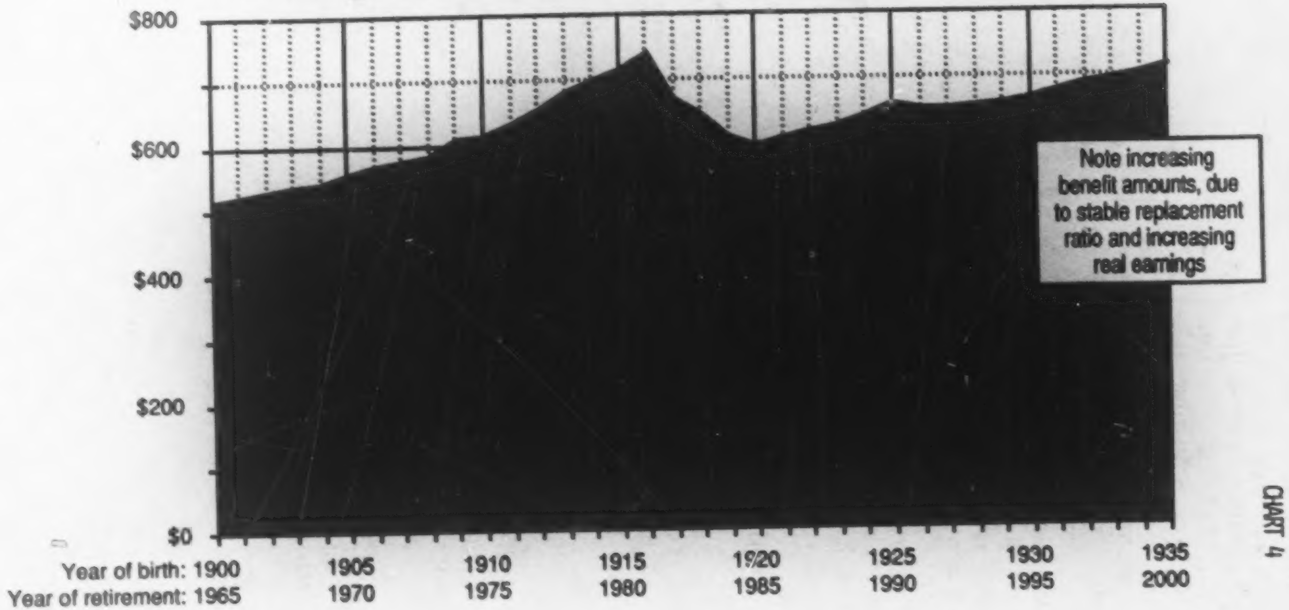
Social Security Replacement Rates for Age-65 Retirees with Average Earnings



Note stable replacement ratios

CHART 4

Social Security Benefits (in 1988 Dollars) for Age-65 Retirees with Average Earnings



Note increasing benefit amounts, due to stable replacement ratio and increasing real earnings

CHART 4

Chairman **Jacobs**. Thank you, sir. Mr. Gibbons. Mr. Archer.

Mr. **Archer**. I have no questions, Mr. Chairman.

Chairman **Jacobs**. Mr. Levin.

Mr. **Levin**. Just a quickie. Just in plain simple English, the position of the administration is in opposition to all these bills?

Mr. **Carozza**. Mr. Levin, we do not believe that there is any inequity, so we do not believe that there is anything to fix.

Mr. **Levin**. So the answer is that the administration is opposed to all of these proposals?

Mr. **Carozza**. If we put out a report we would, yes, sir, oppose those.

Mr. **Levin**. Why do you hedge? I mean, I asked you a simple question. I think you ought to be able to answer it yes or no.

Mr. **Carozza**. We oppose them, yes, sir. We have not done a formal report.

Mr. **Levin**. You have received mail on this subject, I assume?

Mr. **Carozza**. Well, Mr. Levin, we receive lots of mail. I do not have an exact count.

Mr. **Levin**. I do not mean a count, but you have received a lot of letters on the notch issue, right?

Mr. **Carozza**. Yes; many addressed to me personally after I testified before the Senate Aging Committee on this issue.

Mr. **Levin**. I am just curious because I have not seen your response. What is the HHS response to letters? Do you state your opposition to the proposals?

Mr. **Carozza**. Yes, sir. It essentially follows the outlines of my testimony.

Mr. **Levin**. And you do not hedge? You make it clear you are opposed to the various proposals?

Mr. **Carozza**. We state that there is no inequity, and we do not believe that anything needs fixing.

Mr. **Levin**. Thank you.

Chairman **Jacobs**. Mr. Daub.

Mr. **Daub**. How would you feel if you were 62 to 65 years old, and you woke up and found out that your fixed or defined fully funded profit-sharing plan, as it was related to your Social Security table, and/or the check you expected to file for on January 1 the month you turned 62, was between $40 and $140 less? You did not know that it happened, and Congress did it to you just two months before?

And you did not have a chance to reorganize your retirement income when you expected, and had been told even six months before by Social Security, that your table was going to be a 100 bucks higher a month than it turned out to be.

Would you think that was unfair?

Mr. **Carozza**. If that happened I would think it was not fair but, Mr. Daub, the Congress, in 1977, did put in a 5-year transition for just that purpose, so that people who were near retirement and who had based their plans on a certain level of benefits would not be adversely affected.

Mr. **Daub**. But the fact of the matter is, if you compare the old formula and the transition formula, and you could choose whichever was higher, that if you were in a category born in 1917, or in 1921, your logic might flush.

But if you carefully examine, statistically, the fact that your benefit is determined on the day you quit, not the day you were born, you would know that people, clearly, who were born between 1918 and 1920 were in a concave part of the curve, and that the transition formula was not smooth, it was not fair for everybody as it declined.

Those people were not given the same monetary percentage of scale, even though Congress may have tried very hard to make it fair.

And that is the point I am making with my bill, that there is an inequity both in terms of timing and in terms of the way in which either formula would affect some of the people inside what is popularly referred to as the notch, I do not think you have looked at it very carefully.

Mr. CAROZZA. Mr. Daub, before assuming this position, I worked on the staff of the Senate Budget Committee and have been looking at this issue for the past 6 years. My father, and more importantly, my mother-in-law are in that position, so I have looked at it from a personal basis, too.

I believe that the people born between 1910 and 1916, quite honestly, did get more than what was intended, and those that follow them get what Congress intended, which is a fair benefit.

Mr. DAUB. Well, I want to tell you that if you had heard my testimony, I give the devil his due. I understand the double payment for inflation that occurred in the 1972 adjustments. I recognized that problem. And you know that no mother raised any of the politicians in Congress to be a fool, to vote to ask them to refund that money, right?

Mr. CAROZZA. Yes, sir.

Mr. DAUB. Now given that inequity, it seems to me that all that ought to be done is to put the declining table into the right perspective, and I am saying to you that I think, technically, and the SSA actuaries, and HHS people I have worked with for 3 years on my bill agree, that the line is not smooth. That it dips. It is unfair to people in the middle of this 5-year period that we are talking about.

And I would urge you to take a more careful look at the statistics and see if the administration might not find at least some ground on which they might be willing to acknowledge that some people in this category are not being treated fairly.

Mr. CAROZZA. We will certainly look at that, Mr. Daub.

Chairman JACOBS. Mr. Carozza, in the Social Security system generally, if a miscalculation is made in an individual account, or an overpayment is made to a beneficiary, how do you correct is on an individual basis, day to day, and through the years?

Mr. CAROZZA. Well, we do go after the overpayment and ask the person who got the overpayment to repay it to the trust fund.

Chairman JACOBS. So you do not write this lady a letter and say we have been overpaying you, and since you are used to it, we will just keep on making the same mistake, do you?

Mr. CAROZZA. No, sir. We do not.

Chairman JACOBS. Well, my colleague has said that no mother reared her son, or daughter, as a fool to serve in Congress, but I suppose a lot of—I hope a lot of people in this country were reared to be honest, and if you are paid more than you have coming to you, what is the honest thing in a case like that? Let's say I had an investment a few years ago, and there was a bond, and it represented a part of my life savings as a matter of fact. They owed me $2,000. The bond was mature, and they were supposed to send me a check for $2,000, and they sent me a check for $20,000. That was a nice surprise.

But my mother keeps tabs on me, so I thought I would better call them up and tell them about it, and I did, and said do you want me to send my personal check for the $18,000, or do you want to have the check back and issue it in the proper amount.

Well, they said they would not have caught it for 6 years, the way their computer system worked, and they were grateful, and so on. And I said, well, not only that, but I am going to tell all my friends to start investing with your firm because you are very generous.

So, I think that concept ought to creep into this discussion today as well.

Mr. **Daub**. Will the gentleman yield.

Chairman **Jacobs**. Yes.

Mr. **Daub**. Of course by acknowledging the problem, as I think I have, while others who sponsor bills with the issue of retroactivity or fairness seem to ignore the very point you are making, I agree that that windfall did occur.

I am trying to say that there was a problem thereafter, and the law is the law. We do not ask the Administration or SSA to pick and choose which rules they enforce and which rule they do not. We set the law here, in the Congress, and then we have to act accordingly.

Chairman **Jacobs**. Yes. I think the point I was making was Jerry Lewis's movie. Remember the name of it? Don't raise the bridge, lower the water. I do not know if you remember that title or not, and I do not know if that has anything to do with our discussion, but I would not be surprised if it did, if you thought about it a little bit. Any further questions? Thank you, sir, for your testimony.

Mr. **Carozza**. Thank you, Mr. Chairman.

Chairman **Jacobs**. And our next witness is the former Commissioner of Social Security, Robert Ball, who is one of the firm of Ball and Myers, the Democratic and Republican experts in the country on Social Security. They are sort of the Sundance Twins. They are inseparable, I think, and both of them had an awful lot to do with the development of the Social Security system, so we are very honored to have you here. You can represent Bob Myers, as well, who I believe is out in California making a talk right now, and getting paid, I hope, more than you are for this one.

STATEMENT OF ROBERT M. BALL, FORMER COMMISSIONER OF SOCIAL SECURITY

Mr. **Ball**. Thank you, Mr. Chairman.

On this issue, I think I can represent Bob. I would not undertake to on a lot of others, and he certainly would not want me to. But on this we see eye to eye.

Mr. Chairman, I have a fairly brief statement, a couple of pages, but even so, I think it would be better if I tried to summarize the major points, and give the committee members a chance to ask any questions they might have.

I would like to stress first and foremost that there is no extra money in Social Security whatsoever. There is no basis for the statement that you could finance these bills out of accumulated reserves.

I just was amazed at the press release I read from this National—what is the name of it—National Coalition to Save Social Security and Medicare—something of that sort—where they attribute to former Acting Commission McSteen, the statement that these huge expenditures could be made without any problem for the financing of Social Security.

I do not understand that at all. The Social Security system is building additional funds to meet, first of all, the goal of an adequate contingency reserve. The present funds are equal only about to 4 months of the next year's outgo. An adequate reserve for just a pay-as-you-go system would be somewhere between 1 and 2 years. We will not reach that level under present law, without any extra expenditures, until about 1992 or 1993.

Then, to look at the long-range: the system is in close actuarial balance over the whole 75 years for which the estimates are made, but additional expenditures would throw it out of close actuarial balance. To be responsible it is necessary to pay for additional expenditures, whether for this purpose or for any other purpose.

That is the first point that I want to emphasize as strongly as I can. There is no extra money in Social Security.

Don't confuse annual surpluses with necessary reserves that are a part of the general funding scheme of the system to meet costs that are going to occur down the road, or to build a contingency fund that is needed in the short term. These are not surpluses. They are necessary reserves.

The second point that I would like to emphasize Mr. Chairman, is that it is really terrible that a large group of people have been led to believe that the Social Security system and the Congress have been unfair to them in the amendments that have been made to the program. What has been lost sight of is that this group of so-called notch babies are having their benefits computed under exactly the same formula that will be applied to everyone from now on. Everyone.

The only difference is that, to some extent, this 5-year group may be treated somewhat better than everyone else. There is no inequity for them, and to single them out for an improved benefit, as against all those who come after, seems to me would not be desirable policy.

Another point I would like to emphasize, Mr. Chairman, is that the question of whether to improve benefits for this one group has really nothing to do with whether Social Security benefits in general are adequate or not. You could probably persuade me, if you raised the money, that Social Security benefits in general could be raised, and meet a real need. But doing it for just this so-called notch group would not pinpoint those most in need of additional Social Security benefits.

Sure, many of them need it—I would not deny that—but that is true for many groups. So the argument that Social Security beneficiaries do not have adequate income is irrelevant to this particular issue.

Then there is one error that has occurred several times in these hearings, or really a misunderstanding, that I did want to comment on, even though it is not in my prepared statement, Mr. Chairman.

It has been stated that the congressional intent in the 1977 amendments was to reduce the replacement rates by 5 percent, and that in fact a much bigger reduction occurred. And former Ways and Means Chairman Ullman was quoted on the goal of a 5-percent reduction.

The 5 percent, as you know, is related to a planned reduction in the average replacement rate for the benefit level that was projected for 1979 for those retiring at age 62. This is approximately the reduction that took place for them. But in the argument about the notch, the complaints are about those who work past age 62, and here the reductions were greater. The fact that they were is not inconsistent with the goal of a 5-percent reduction at age 62.

I had several other points in my prepared statement, Mr. Chairman, but I think those are the most important, and the red light is on.

[The statement of Mr. Ball follows:]

STATEMENT OF ROBERT M. BALL

My name is Robert Ball. I have been asked to present my views on the situation created by the notch.

I am appearing today entirely on my own behalf, and the views presented in my testimony do not necessarily accord with those of any of the organizations with which I am associated.

The GAO has presented you with an extensive and excellent report on the historical and technical details of the notch problem. I will, therefore, concentrate on just a few points that seem to me to deserve highlighting.

1. The notch has been created by what turned out to be overly generous treatment of those born just before the "notch babies" a group quite properly called "bonanza babies." This group, most of them born in the period 1910-1916, had their benefits computed under the 1972 law, and those in the group who worked after age 62 are getting benefits higher than was intended because of the higher than expected inflation and wage levels in the period 1975-77. A notch arises because those whose benefits are computed under the 1977 law and work after age 62 get less than the bonanza babies with comparable work histories. Those just over the borderline compare themselves with the bonanza babies and would like to have the same favored treatement.

2. All who have their benefits computed under the 1977 formula, in other words everyone born after 1916 are notch babies in the sense they are treated less well than the bonanza babies when the measure used is the relationship of retirement benefits to recent earnings, the so-called replacement rate.

It is very unfortunate that a large number of older people have been led to believe that the Social Security system is unfair to them and that they have somehow been singled out for discriminatory treatment. The fact that their benefits have been computed under the same formula as will be applicable to everyone else born after 1916 has not been made clear. They compare themselves only with their immediate predecessors, the bonanza babies.

3. There are only two things that distinguish the group born in the period 1917-1921 (the group called notch babies) from all those who come after. (a) Some in this group are better off than those who come later because they may benefit from a five-year transitional provision in the law; and (b) since the level of Social Security benefits rises gradually in the future as wages rise, the contrast with the treatment of the bonanza babies is less and less obvious as time passes. In other words, although replacement rates will always be lower, the same replacement rates in the future will produce higher nominal benefits becuse wages rise and to the extent that wages exceed prices, real benefits will rise too.

4. The problem of the notch grew out of the interaction between the benefit formula in the 1972 amendments and the high inflation of the mid-1970s. The formula in the law was the same as had been used on an ad hoc basis in many previous benefit increases and would have worked well enough if the economic conditions of the past had continued after the 1972 amendments. The objective of the 1972 formula was to keep benefits at the time of computation up to date with wages and up to date with prices once the benefit was awarded. Instead, with the high inflation of the mid-1970s the ratio of benefits to recent earnings, the replacement rate, increased and new assumptions about wages and prices for the future, if borne out, would have resulted in benefit levels eventually exceeding the wages on which they were based. Clearly no one had intended such a result and the 1972 formula

had to be changed. The correction took too long. The problem was apparent fairly early after the 1972 amendments became effective, and the advisory council reporting in 1975 encouraged immediate action.

The 1977 amendments fixed the situation for the future, stabilizing the relationship of benefits to wages indefinitely, but in the meantime those who had had their benefits computed under the 1972 formula and who continued to work after age 62 were receiving more than had been intended. Since the correction in the 1977 amendments did not extend to cutting back on those benefits already awarded and continued to allow those subject to the 1972 formula to have their benefits increased because of continuing work, a notch was created.

5. It might well be argued that the benefits of the bonanza babies should be gradually reduced over time from what they are now receiving and thus get rid of the notch in this way, but the plans of these people have been based on the benefits they have been receiving for some time and to reduce them now would cause a great deal of concern and add another dissatisfied group to the notch babies.

6. It hardly seems wise to try to meet the complaints of those who want to be bonanza babies too by extending the previous error. It is certainly not required by equity and there is no extra money in the Social Security trust funds to do anything. The build-up that is taking place in the funds is designed first of all to get the trust funds back to a safe contingency reserve. At present the funds equal only about four months of benefit payments, whereas a reasonable contingency reserve, even for a pay-as-you-go system, should be between one and two times the next year's outgo so that any unexpected downturn in the economy could be handled without the need to increase taxes or borrow from general revenues and still have a reasonable reserve at the beginning of the next business cycle. Under present law, without spending any more, this desirable level will not be reached until 1992 or 1993. Moreover, the Social Security funds are in close actuarial balance over the whole 75 years for which the cost estimates are made, but this finding of close balance depends on the build-up of a sizeable earnings reserve. The annual surpluses are not really surpluses but reserves needed in the financial scheme of the program. If, for some reason, the Congress deemed it necessary to increase the benefits of this particular age cohort, and I don't see why it should, it ought to at the same time increase the income to the system to cover the cost of such a change. Otherwise the financing of the program would be weakened; there is no extra money.

7. I don't know of anything sensible that can be done about the notch, or objectively anything that needs to be done. The replacement rates in present law seem reasonable and are the ones intended by the Congress. It does not seem fair to raise replacement rates for one special group of those whose benefits are computed under the new law and, expensive as this is, to raise benefits generally would, of course, be much more expensive. It is very unfortunate that so many older people have been led to believe that they are being treated unfairly by Social Security, but to their credit most organizations representing the elderly, together with the organizations representing those paying into the system, have stood against the demands of the notch babies and have urged instead a focus on the need to maintain the financial integrity of the system.

Chairman **Jacobs**. Mr. Gibbons.

Mr. **Gibbons**. Mr. Ball, I want to thank you, too, for coming here to tell it like it is. You have been doing it for a great many years. We know that you understand the system. We know that you have always been fair with all your fellow citizens in the working on this system. It is a very complicated system, and I agree with you, there may be something that we need to do for the whole system.

But I think you have just put your finger on it. I want to commend you, and thank you again for helping us.

Mr. **Ball**. Thank you, Mr. Gibbons.

Chairman **Jacobs**. Mr. Daub.

Mr. **Daub**. You heard my discussion with the representative of the administration, and it is a technical point that I make, and I know that people that want to do something about this, in many respects, have got bills in that simply cannot be afforded.

That tends, then, to color one's view, I assert, about what can and should be done. I have tried to be very careful and aim—pardon the use of the pun—if I am going to change something, I owe my constituents a fair estimate of what it is going to cost them, and I also have to take into account the future.

And so I have tried to be very narrow in my approach, and to do something at least that acknowledges that the problem was there. It was a near-term thing that did not work out very well and I want to make sure that there is an acknowledgement of that.

And so I think you appreciate my point of view, that I am not going whole hog, as some might say, and trying to raid the trust fund, to create a second notch, to distort even further the 50 percent, or the 41 percent, or the 52 percent replacement value—because your point is well-taken. I have learned a long time ago to understand the merit of a point well made, and you made your point well.

But I do think if you technically estimate what happened when you took the check, because of the distortion in the econometric modeling in 1978, 1979, and 1980, some people had a problem. Remember that it was when you took your check, between 1978 and 1983 that determined the effect.

It is that particular group of people, right in that one spot, and no amount of charting or diagramming can dispel the idea that there were some people who, when their calculations were made, literally did not get put on a level plain, declining that double windfall.

There are some who got below that line, and we ought to look at how to smooth that line out, not raise it, not pay retroactively, because the money is gone. It was there once, but it is not there now.

Mr. **Ball**. Well, Mr. Daub, I have admired the way in which you have limited your approach in this. Among the bills, yours, by far, is the most responsible, and if one were to do something I would go in your direction.

It is good because, first of all, it is cheaper, but even so—what, $21 billion? It looks small only in comparison with the others. That is still quite a lot of money. I think also your limiting the benefit improvement to the group in the 5 years affected by the transitional provision is admirable. This is the only group Congress intended help and you have not enlarged it.

But after I have said that, it still seems to me that there is not a good case for treating this 5-year group better than they are now being treated. The real problem is what some of us have called the bonanza babies. Those who came just before the notch babies and got much more than the Congress ever intended.

The high wages and prices of the inflation period just prior to 1977 created higher than intended benefits for those who worked past age 62. The 1972 formula had unintended results under inflationary conditions. The notch results from reducing the replacement rates to reasonable and affordable levels. The system is now in good shape.

I would urge you to do nothing, though I do appreciate very much the care with which you have designed your own bill.

Chairman JACOBS. Mr. Levin.

Mr. LEVIN. No questions. Thank you, Mr. Ball.

Chairman JACOBS. We express our gratitude.

Mr. GIBBONS. I have one question I would like to pursue with Mr. Ball, if I could.

We understand why the phase-down started. Let us talk about the average earner retiring at age 65 between 1981 and 1986. We got below the 42 percent level and are still slightly below it. Can you tell me why we have done that?

Mr. BALL. There always are going to be some slight variations, around 41, 42 percent, in replacement level for the average worker by reason of the way prices and wages happen to behave. There will be, I hate to tell you, slight notches in the future.

Mr. GIBBONS. Yes.

Mr. BALL. There will be some groups retiring at, say, 65 getting slightly less than the group just before. They will not be dramatic ones like this. But since the benefit formula is related, as it should be, to an indexed wage up to age 60, and from 62 on under the new formula benefits are kept up to date with increasing prices, you will get some variation depending on how wages and prices interact.

I do not know how you could change that, nor do I think it is a significant problem.

Mr. GIBBONS. It does not seem to be a significant problem, but we are now slightly below the 42 percent.

Mr. BALL. About 41 point.

Mr. GIBBONS. Yes, it is not very much.

Mr. BALL. It may be, Mr. Gibbons, that we should not be so focused on the average benefit—I mean the benefit for the average worker, which is what we are talking about. It is an artifact. People get benefits related to their own individual career earnings, and they vary greatly. The average is used because it is difficult to talk about a whole series of numbers, but the replacement rates vary, depending on one's past earnings from the minimum wage earner who gets a replacement rate around 60 percent to the maximum earner who gets about 22 percent, and everything in between.

So saying somebody earned the average wage his whole life, and the intention for him or her was a benefit of so much is very much a shorthand way of talking.

Mr. **Gibbons**. Yes, I understand. But we do as policymakers have to anticipate that there are going to be variations from this average. It will go up and down.

Mr. **Ball**. Yes.

Mr. **Gibbons**. We will have little rises and little falls, but not the large type that we had here for the 1917.

Mr. **Ball**. The 1977 amendments were really very, very good legislation. I am afraid the country has not quite grasped yet exactly how good the program now is because of that 1977 legislation.

The result of what you did was to stabilize the replacement rate on into the future. What that means is that as wages rise, people who retire in the future are going to get higher benefits in real terms. As wages rise faster than prices, the same percentage of a higher wage is going to give a higher benefit in terms of purchasing power. So you have an automatic system producing a benefit that keeps up with the level of living of the country. That really was the objective of the 1972 amendments; not just to keep up with prices, but to keep up with rising wages.

In the 1977 amendments you did it in a way that really works by indexing wages and by indexing the benefit formula itself. Consequently, in 2010 or 2020 the single worker on average will be getting this 41, 42 percent of earnings being paid at that time, which because of productivity increases will be higher in real terms than the wages of today. But they will be relatively the same. They will be the same replacement rate of the future earnings level.

After benefits begin, they are kept up to date with purchasing power. Thus, the benefit in purchasing power terms remains stable throughout the retirement period, or the period the totally disabled person receives benefits, or a widow or orphan. So you have got a system now which keeps up to date with wages before the benefit is awarded and up to date with prices thereafter. And you have provided for adequate financing. I think you have done a great job.

Mr. **Gibbons**. Let me ask you this. I may be out of order, Mr. Chairman, to bring it up now. Perhaps you are not prepared to talk about it. But when the baby boomers start retiring and the low birth rate people are the predominant force in the work force, how are we going to redeem all those IOU's in the retirement account?

Mr. **Ball**. You want to go into this?

Mr. **Gibbons**. The post-baby boomers are going to have one whale of a cost to redeem those IOU's to pay cash benefits to the baby boomers.

Mr. **Ball**. I think it depends, Mr. Gibbons, on what you do about the budget as a whole.

Mr. **Gibbons**. About the budget as a whole, yes.

Mr. **Ball**. I think it is clear, as a matter of economics, that if you take the unified budget, including Social Security, and run surpluses, you will increase the national savings rate. I do not see how you could do it right away, but if over time you were to balance the non-Social Security part of the budget, then the Social Security surpluses being in excess of that would be real savings. It would mean that the country was in a better position to meet the costs of the baby boom retirement than it would without these savings.

So this later cost can be saved for. It is not illusionary at all. But it depends on not using the Social Security surpluses for current consumption. It depends on using the Social Security surpluses to increase the overall savings rate.

I understand that this thesis is now being developed by several economists, and I believe they will be able to show you clearly that you do not need to have any burden on future workers because of Social Security. The baby boomers can pay their own way if you produce Social Security surpluses and more or less balance the non-Social Security budget.

Mr. GIBBONS. In other words, you have to balance the other side of the budget and not let the reserve in the Social Security account mask the total deficit?

Mr. BALL. Yes. Over time you certainly have to move very far in that direction. I do not want to make it absolute, and it certainly does not have to be done immediately. But the overall economic point is that if you are going to have real savings through Government, the unified budget has to show a surplus. One good way to do that is to balance the non-Social Security budget and let the Social Security surpluses rise, be real savings. The way it works, of course, is Social Security takes over a large part of the existing national debt.

Mr. GIBBONS. But somebody has got to redeem those IOU's that are the assets of the Social Security system. And they are going to have to do it with cash.

Mr. BALL. My point is simply that you are in a position to do that if the Social Security funds have bought up the national debt that would otherwise be outstanding in the hands of private citizens. Thus you are better off than you otherwise would be because you don't have to both redeem the privately held bonds and also pay Social Security benefits out of other funds.

Mr. GIBBONS. Oh, I agree you would be better off than you otherwise would be, but it still is going to be a very heavy burden for a reduced work force to support the baby boomers, because they are going to have to take that surplus and redeem it with additional cash paid into the system.

Mr. DAUB. Would the gentleman yield?

Mr. BALL. I think the response is at two levels.

Mr. GIBBONS. Yes.

Mr. BALL. One is the more fundamental economic level. If you actually increase the savings rate in the country——

Mr. GIBBONS. I understand that.

Mr. BALL [continuing]. You are in a better position as far as productivity is concerned.

Mr. GIBBONS. I could not agree with you more.

Mr. BALL. Then on the bookkeeping level, you are in the position where instead of owing 2 trillion-plus dollars to the private sector, and in a pay-as-you-go system also having to pay out Social Security benefits at the same time you still owed $2 trillion to the public you redeem the Social Security debt and pay Social Security from a combination of current Social Security taxes and redemption of the debt.

Mr. GIBBONS. What I am trying to point out is that——

Mr. BALL. We do it by redeeming the bonds.

Mr. GIBBONS. In 2010, 2015, the Social Security account is going to have a lot of surplus in it.

Mr. BALL. Yes.

Mr. GIBBONS. But those surpluses will really just be IOU's.

Mr. BALL. Right.

Mr. GIBBONS. That is all they are. Somebody is going to have to generate the cash to convert those IOU's into cash so they can be paid out as cash benefits to the baby boomers.

Mr. BALL. Absolutely.

Mr. GIBBONS. Now, that is where the situation gets awfully binding, as I see it.

Mr. BALL. I guess I am saying, Mr. Gibbons, that because you have built the surplus, you do not at the same time owe that $2 trillion to private people. So you are in a position to do that. If you wish, you can cash Social Security bonds to pay part of the benefit cost, just as you would have had to redeem the bonds in private bonds.

Mr. GIBBONS. Well, I hope it works, and I hope I am around to see it.

Mr. BALL. Actually, I am not sure I want to do it just the way we are talking. Maybe if you are going to build a large fund, you might want to keep the fund and actually have a Social Security rate increase around 2035 or so. But the economic effect of easing a future burden depends on using Social Security surpluses as savings. You will be there to work on that, but not me.

Mr. GIBBONS. Thank you.

Mr. DAUB. Would you yield, Sam, on that point, just briefly?

Mr. GIBBONS. I will be happy to yield.

Chairman JACOBS. There is not much time. There is a long line up here.

Mr. DAUB. Just real quick. Just the idea that I guess I do not think in terms of IOU's, Sam, as I have watched the fund managed. I do think in terms of redeeming from a balance, and I look carefully with concern as well. You look at the 1983 amendments that said that somebody under age 23 in May of 1983 would have 40 years in the work force taking them to the year 2023. Now, we raised the retirement age, stabilized the COLA formula—wages or inflation, whichever is less—increased the penalty for early retirement from 20 to 30 percent, and we also raised the amount you get as a bonus if you keep on working as we get an older society.

There are some dynamic things, I think, in what we planned to help allay a little bit of the concerns some of the writers now have who are not focusing on the way in which I think the fund will be which is a lot sounder and more solvent than people estimate.

Mr. GIBBONS. It is going to be sounder than it is now. I think if you do not foresee some problems out there, you are going to stumble into something around 2010, 2015 that is going to be almost unmanageable.

If it is all IOU's—if we got the $2 trillion private debt, plus how many trillions of Social Security debt would we have added into that pot, we are going to be in one terrible shape to have to redeem it then. Unless we really reduce the national debt, unless we really reduce the national debt, the Social Security system or the people who are financing the Social Security system in 2010 on out are going to have an unconscionable burden to carry. They will not be able to carry out. There is a smaller work force in proportion to the baby boomers who are in the retired force, and if we have not reduced the national debt by that time, you know, there is going to be a serious, serious problem.

I do not think the Congress has focused on that yet.

Chairman JACOBS. Mr. Ball, we thank you very much for your contribution.

Our next witness is Ms. Ina Jones, representing the Gray Panthers. She is not going to be alone, as it turns out. We have Mr. Lehrmann representing AARP, and Veterans of Foreign Wars represented by Mr. Thorson, and Mr. Eric Shulman replaces Mr. Smedley for the National Council of Senior Citizens, and Ms. McSteen, former Commissioner, we are delighted to have you with us, too.

Let us proceed with Ms. Jones and the others in the order in which they have been called.

STATEMENT OF INA SUGIHARA JONES, COORDINATOR OF LEGISLATION, GRAY PANTHERS OF WESTCHESTER, N.Y., ACCOMPANIED BY ABRAHAM BLOOM, NATIONAL BOARD MEMBER AND MEMBER OF THE ECONOMIC JUSTICE TASK FORCE

Ms. JONES. My name is Ina Sugihara Jones. I am the coordinator of legislation of the Gray Panthers of Westchester in New York State. I am accompanied by Abraham Bloom, a national board member and a member of the National Economic Justice Task Force of the Gray Panthers.

I represent the Gray Panthers, a national intergenerational organization with 80 local groups around the country advocating justice and fair treatment for all people, regardless of age. The Gray Panthers adopted a resolution endorsing H.R. 1917 at its national convention held in September 1986. In this Congress, Chairman Roybal introduced a new H.R. 1917, which is less expensive and which still provides equity.

We have not studied the other bills. We are certainly not opposed to them. We could favor one of them if it were to receive consideration in Congress.

I am also pleading on behalf of about 7 million people nationally, 65,000 in Westchester County alone, who were born during and right after World War I, grew up during the Great Depression, started working during that Depression, contributed to Social Security from its inception, were drafted in World War II, and worked for 40 to 50 years hoping for comfortable retirement and finding instead abject poverty and possible homelessness.

The 1977 Social Security Amendments did not do what it was supposed to do. Instead of a reduction of 6 to 10 percent, we got 10 to 20 percent. Of course, the most outrageous provision was the exclusion of earnings after age 61. Because of these drastic cuts, people are still suffering from the effects. Imagine a person receiving $575 per month instead of $680. It can mean not paying the electric bill. Resolution of this type of inequity can help to relieve financial stress and possibly save homes.

In a random survey of Westchester notch residents, I found very few who receive more than $600 per month for Social Security benefits. I have attached a tabulation of the figures to my statement.

Most do not receive other pensions, individual retirement accounts or other sources of steady income. Many still work full time or part time. They can do this now in their sixties and early seventies but not when they turn 85 and 90. Husbands and wives are doubly penalized. Some are withdrawing regularly from meager savings.

In Westchester, apartment rents can run from $700 to $1,000 a month and up. Co-ops cost $100,000 and more. Condos are $150,000 and up. Houses are $200,000 to $300,000 and more. And property taxes are high and rising. They can run $5,000 to $6,000 per year for a simple house. We also have the highest electric rates in the country, about $100 per month or more per household. As a result, the notch people are stuck wherever they live, and they can become homeless.

I have attached to my statement quotations from 9 letters out of 550 responses, including 76 telephone calls in 2 days and correspondence for 3 months, which I received to a letter-to-the editor published on December 27, 1987, in our countywide newspaper chain, the Gannett Westchester newspapers. The newspaper chain has never received as many responses to any request for readers' opinions, and their request usually appears in a box on the front page. Mine was one of eight or nine letters on the usual back page.

We have held three meetings of some of the Westchester notch people and will expand membership to others as we continue to meet and discuss Social Security issues including the notch. We will become the Social Security Task Force of the Gray Panthers of Westchester. I was ready to disband them, but they want to continue.

H.R. 1917 would correct the basic inequities affecting the notch people, while not reverting to the flawed system of the 1972–77 period. It would include all earnings in computations, extend the transition period from 5 to 10 years, include all earnings after age 61 and reduce the 1972 formula by 3 percent, reduce benefits by 3 percent additional for each year of birth after 1916, pay retroactive benefits, increase average earners' payments by $49 to $132 a month and cost $86.4 billion by 1996.

The Social Security trust fund will be able to pay the correction. According to the chief actuary of the Social Security Administration, the trust fund will have an estimated excess of $101.5 billion of income over outgo and reserves of 139 percent in 1995. In the year 2000, the fund will have an estimated excess of $192.9 billion of income over outgo, and reserves of 254 percent of annual expenditures, more than enough to cover the cost of correcting the notch without bankrupting the system.

We are asking you to correct the notch problem, not by restoring the flawed formula, but by phasing in the new formula in a gradual manner as intended. You certainly owe a group of people who survived a depression, served in a World War and contributed to Social Security for a lifetime more consideration and justice. How can I go back to Westchester and tell a person receiving $311 per month that this great Nation cannot afford to correct its mistakes and pay a little more? Congress created this problem by trying to solve another one. Let us solve it altogether.

By the way, all the Congressmen from Westchester are in favor of this, and I want to mention that in that tabulation of figures that I attached, you will find the lowest benefit is $269. Nine of them are in the 300's; 11 are in the 400's; 12 are in the 500's. Now we are getting a little better: 12 are in the 600's. Only five of them are in the 700's, four in the 800's, only two in the 900's, and one of those covers two people. Only one gets $1,000; that also covers two people.

That is the kind of benefits the notch people are getting in a county that had the highest per capita income in the country at one time.

Thank you very much.

[The statement and a letter subsequently received from Ms. Jones follow:]

INA SUGIHARA JONES
4-16 Granada Crescent
White Plains, New York 10603
(914) 761-9104

TESTIMONY ON THE SOCIAL SECURITY "NOTCH"
BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
UNITED STATES CONGRESS
ROOM 1100 LONGWORTH HOUSE OFFICE BUILDING
THURSDAY, APRIL 14, 1988

My name is Ina Sugihara Jones. I am Coordinator of Legislation of the Gray Panthers of Westchester County, New York. I am accompanied by Abe Bloom, a member of our national Board and Economic Justice Task Force.

I represent the Gray Panthers, a national intergenerational organization with 80 local groups around the country, advocating justice and fair treatment for all people, regardless of age. The Gray Panthers adopted a resolution endorsing H.R. 1917, the Social Security "notch" correction bill, at its national convention held in September 1986.[1] In this Congress, Chairman Roybal introduced a new H.R. 1917, which is less expensive, but still provides equity.

I am also pleading on behalf of about seven million people nationally (65,000 in Westchester County, New York) (63-70 years old) who were born during and right after World War I, grew up during the Great Depression, started working during that depression, contributed to Social Security for 40-50 years, hoping for comfortable retirement, and finding instead abject poverty and possible homelessness.

The 1977 Social Security Amendments did not do what it was supposed to do. Instead of a gradual reduction of benefits by 6-10 percent, the reduction was about 10-20 percent or more. The most outrageous provision of the 1977 Amendments was the exclusion of earnings after age 61. For many, these last few years of earnings are their highest. Unfortunately, individuals born between 1917 and 1921, using the transitional formula, were not allowed to use these earnings which resulted in lower benefit amounts. Cuts were harder than intended and people are still suffering from their effects. Imagine a person receiving $575 per month instead of $680.[2] It can mean not paying the electric bill. Replacement of this difference (not the difference from the original inflated amount) can help to relieve financial stress and possibly save some homes.

In a random survey of the "notch" residents of Westchester, I found very few who receive more than $600 per month for Social Security benefits.[3] Most do not receive other pensions, Individual Retirement Accounts or other sources of steady income. Many still work, full-time or part-time. They can do this now in their 60's and early 70's but not when they turn 85 and 90. Husbands and wives in the "notch" group are doubly penalized. Some are withdrawing regularly from meager savings.

In Westchester, uncontrolled residential rents run from $700 to $1000 and up, co-ops cost $100,000 and more, condos are $150,000 and up, and houses are $200,000-300,000 and more. Therefore, "notch" people are stuck wherever they live. Rents can rise too high for reduced Social Security benefits. Property taxes can increase also ($5000-$6000 per year on a simple house). Electric rates are the highest in the country ($100 per month or more) and as a result the "notch" people can become homeless.

Attached are quotations from nine letters, out of 550 responses, including 76 telephone calls in two days and correspondence for three months, which I received from Westchester "notch" people. They were replying to a letter-to-the-editor published on December 27, 1987 in our countywide newspaper chain -- Gannett Westchester Newspapers.[4]

The Gannett chain has never received as many responses to any request for readers' opinions, which is usually displayed in a box on the front page of a section. My letter was one of eight or nine on the usual back page.

We have held three meetings of some of the Westchester "notch" people and will expand membership to others as we continue to meet and discuss Social Security issues including the "notch." We will become the Social Security Task Force of the Gray Panthers of Westchester.

H.R. 1917 would correct the basic inequities affecting the "notch" people, while not reverting to the flawed system of the 1972-77 period. It would include all earnings in computations, extend the transition period from five to ten years, include all earnings after age 61 and reduce the 1972 formula by 3%, reduce benefits by 3% additional for each year of birth after 1916, pay retroactive benefits, increase average earners' payments by $49-$132 per month and cost $86.4 billion by 1966.[5]

The Social Security Trust Funds will be able to pay the correction. According to the Chief Actuary of the Social Security Administration, the Trust Funds will have an estimated excess of $101.5 billion of income over outgo and reserves of 139% in 1995; in the year 2000 the Funds will have an estimated excess of $192.9 billion of income over outgo and reserves of 254% of annual expenditures, certainly more than enough to cover the costs of correcting the "notch" without bankrupting the system for future generations.[6]

We are asking you to correct the "notch problem," not by restoring the pre-1977 flawed formula, but by phasing in the new formula in a gradual manner as intended. Make the reductions gradual as outlined in H.R. 1917. You certainly owe a group of people who survived a depression, served in a World War and contributed to Social Security for a lifetime more consideration and justice. How can I go back to Westchester and tell a person receiving $311 per month that this great nation cannot afford to correct its mistakes and pay a little more. Congress created this problem by trying to solve another one. Let's solve it altogether.

All of the Representatives in Congress from Westchester favor H.R. 1917. I have letters of support from all four: Representatives Mario Biaggi, Joseph J. DioGuardi, Hamilton Fish, Jr., and Benjamin A. Gilman.

QUOTATIONS FROM LETTERS FROM WESTCHESTER "NOTCH" RESIDENTS

Received by Ina Sugihara Jones
December 27, 1987 - March 31, 1988

"As the Receiver of Taxes for (the Town of) Greenburgh, I often hear retirees complaining how hard it is to manage on Social Security monies."

Resident of Ardsley, New York

"I thought with my pension from my 33 1/2 years of police service and (the) amount I thought I was to get from Social Security...would give us income sufficient to enjoy some of our favorite activities and be quite comfortable maintaining necessities.... I fell into the "notch" years thus cutting...(my) income by $100 or so; plus...my wife (receiving less). I have seen our income dwindle into a stage of cutting back our activities and not doing other things because (of) everyone (else) gaining so much...in pay raises and costs getting higher each year....I have worked since high school graduation paying...into Social Security continuously...never collected unemployment...contributed more than friends...who were born prior to the "notch" and (they) have...checks equal or higher than (mine).

Resident of Peekskill, New York

"Both us (husband and wife) were born during the notch years. We are very disturbed that this unfair discrimination has had a double impact on our income."

Resident of Hartsdale, New York

"I am...the widow of someone born in...1919. I am collecting benefits on my late husband's account but the payments do not even pay the rent in full...expenses are...high and getting higher all the time."

Resident of Mount Vernon, New York

"I will be 70 years old in 1988...born in 1918...and have been collecting Social Security benefits since I was 62. I retired nearly two years ago and find it difficult to make ends meet with my Social Security check of $418 per month plus a little interest income from my life savings, which are slowly disappearing because of my expenses and real estate taxes. I have little left for food expenses and am not eligible for food stamps. I am depriving myself of everything in order to pay my bills and still live in my old house where I have lived for 62 years."

Resident of Port Chester, New York

"(I) get $483 a month after Medicare is taken out. My wife receives $210. Can't make our expenses, so still work as a parking attendant since I retired in 1983 from my gardening business.

"I paid for 40 years all my Social Security taxes like anyone else....Am a disabled vet also....Have our own home. If it wasn't paid up couldn't even pay anything on the income that we get. Saved some money as we don't want to be on a cheese line -- want to be independent."

Resident of New Rochelle, New York

"I have had to work beyond my 65th birthday to bring up my benefits. I'll be 68 in March. If I had quit at 65 I'd have gotten $302 (not nearly enough for the rent)."

Resident of White Plains, New York

"(I) will be 71 in Feb.; am presently working but would like to retire if I could."

Resident of Ardsley, New York

"(I have) very high property taxes in Mt. Vernon. I am caught in a large house and it would be unwise to sell because of high rents and impossible housing prices in Westchester."

Resident of Mount Vernon, New York

REFERENCES -- NOTES

(1) RESOLUTION ADOPTED BY THE GRAY PANTHERS
National Convention - September 1986

SOCIAL SECURITY

WHEREAS, Congressional action taken in 1977 with respect to the retirees born after 1916 and before 1922 will result in these retirees receiving as much as $133.00 a month less than other retirees with similar earnings,

THEREFORE, Be it resolved that the Gray Panthers support H.R. 1917, introduced by Congressman Edward Roybal, to correct the injustice of action taken by Congress with regard to retirees born after 1916 and before 1922.

(2)

COMPARISON OF AVERAGE MONTHLY SOCIAL SECURITY BENEFIT AMOUNTS IN 1991 FOR AGE 65 RETIREES WITH CAREER AVERAGE EARNINGS

Year of Birth	Year of Retirement At Age 65	Current Law 1977 Amendments	H.R. 1917 100th Congress	H.R. 1721 Rep. Daub
1915	1980	$675	—	—
1916	1981	$697	—	—
1917	1982	$630	$679	$681
1918	1983	$606	$681	$654
1919	1984	$575	$683	$635
1920	1985	$561	$693	$618
1921	1986	$572	$665	$596
1922	1987	$582	$652	$582
1923	1988	$589	$640	$589
1924	1989	$604	$623	$604
1925	1990	$608	$608	$608
1926	1991	$608	$608	$608

Source: Social Security Administration

Prepared for Chairman Roybal by the Subcommittee on Retirement Income and Employment

(3) Social Security benefits of 'notch" residents of Westchester County, New York, found in a random telephone survey, January 1988.

$1000 for 2
900
900 for 2

855
830
800
800

$758
722
719
700
700

$685
671
664
654
634
629
618
601
600
600
600
600

$590
590
585
580
560
550
527
504
500
500
500
500

$474
473
454
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$388
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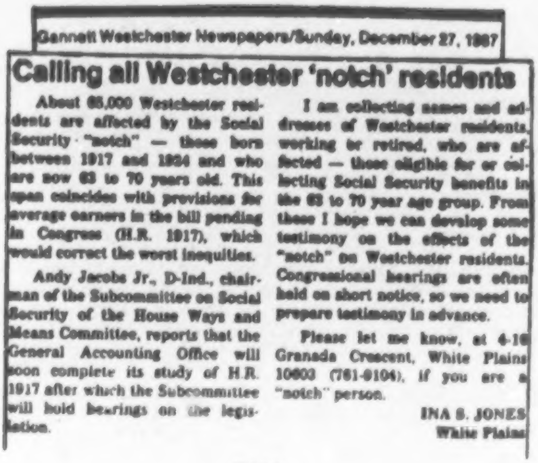
345
333
321
311
305
303
300
269

(4)



Gannett Westchester Newspapers/Sunday, December 27, 1987

Calling all Westchester 'notch' residents

About 65,000 Westchester residents are affected by the Social Security "notch" — those born between 1917 and 1924 and who are now 63 to 70 years old. This span coincides with provisions for average earners in the bill pending in Congress (H.R. 1917), which would correct the worst inequities.

Andy Jacobs Jr., D-Ind., chairman of the Subcommittee on Social Security of the House Ways and Means Committee, reports that the General Accounting Office will soon complete its study of H.R. 1917 after which the Subcommittee will hold hearings on the legislation.

I am collecting names and addresses of Westchester residents, working or retired, who are affected — those eligible for or collecting Social Security benefits in the 63 to 70 year age group. From these I hope we can develop some testimony on the effects of the "notch" on Westchester residents. Congressional hearings are often held on short notice, so we need to prepare testimony in advance.

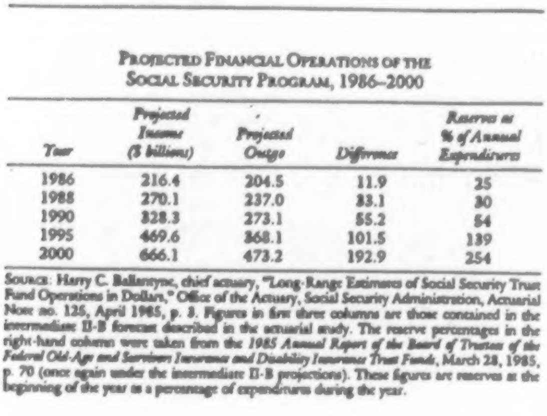
Please let me know, at 4-1 Granada Crescent, White Plains 10603 (761-6104), if you are a "notch" person.

INA S. JONES
White Plains

MORE

(5) "Questions and Answers on the "Notch" issued by the Select Committee on Aging, House of Representatives, 100th Congress.

(6)



PROJECTED FINANCIAL OPERATIONS OF THE SOCIAL SECURITY PROGRAM, 1986–2000

Year	*Projected Income ($ billions)*	*Projected Outgo*	*Difference*	*Reserves as % of Annual Expenditures*
1986	216.4	204.5	11.9	25
1988	270.1	237.0	33.1	30
1990	328.3	273.1	55.2	54
1995	469.6	368.1	101.5	139
2000	666.1	473.2	192.9	254

SOURCE: Harry C. Ballantyne, chief actuary, "Long-Range Estimates of Social Security Trust Fund Operations in Dollars," Office of the Actuary, Social Security Administration, Actuarial Note no. 125, April 1985, p. 3. Figures in first three columns are those contained in the intermediate II-B forecast described in the actuarial study. The reserve percentages in the right-hand column were taken from the *1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, March 28, 1985, p. 70 (once again under the intermediate II-B projections). These figures are reserves at the beginning of the year as a percentage of expenditures during the year.

# # # # #

INA SUGIHARA JONES
4-16 Granada Crescent
White Plains, New York 10603
(914) 761-9104

April 25, 1988

APR 28 1988

The Hon. Andy Jacobs, Jr., Chairman
Subcommittee on Social Security
Committee on Ways and Means
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Jacobs:

At your Subcommittee's hearings on the Social Security "notch" issue held on April 14, 1988, you asked me how the Social Security Trust Funds can accommodate "notch" corrections in view of future obligations. The hearings also raised the issue of replacement rates, in addition to actual benefit amounts.

The General Accounting Office (GAO) said that current "notch" legislation, especially H. R. 1917, would erode the Social Security Trust Fund's contingency level. However, their statistics do not support their conclusion. According to Table 6.2 on page 77 of the GAO report, H. R. 1917 would merely postpone the accomplishment of a 100% Trust Fund ratio (of assets over outgo) from 1992 to 1994, and there would still be $571.2 billion in reserves and a 137% ratio in 1996. Is this not enough reserves for the mid-1990's? The "Baby Boomers" will not be retiring until about 2010-2015. By that time the Social Security Administration expects Trust Fund reserves of $4.5 trillion, which should be adequate. (See notice from SSA to recipients.) The "notch" correction certainly will not hamper this result. As Table 6.2 shows, the adjustments included in H. R. 1917 can easily be made within the assets over outgo ratio expected each year.

As for replacement rates, they were extremely low for those born in 1919 and 1920 (40.9% for average earners). However, if these rates were figured on a lower benefit base for people in the "notch" years, by omitting wage increases in 1978-81 or earnings after the age of 61, they would not show the precipitous drop in benefits experienced by the "notch" people. They then cannot be compared with rates for other years. Only by adding the above omissions to the benefit base and computing the results with actual benefits paid to people born in the "notch" years can we find realistic replacement rates. These rates should be very low by comparison with those of other years, earlier or later.

We urge you to report out H. R. 1917 favorably for discussion on the House floor. We ask that this letter be added to our statement at the hearings and placed in the printed record, together with a copy of Table 6.2 of the GAO report.

Sincerely yours,

Ina Sugihara Jones,
Coordinator of Legislation,
Gray Panthers of Westchester
and representing the national
Gray Panthers.

Table 6.2:

Effect of Proposed Notch Legislation on the OASDI Trust Funds (1987-1995)

Figures (except trust fund ratio) in billions of dollars; based on SSA estimates and alternative II-B economic assumptions

Projected status of OASDI Trust Funds (no notch legislation)

Calendar year	Excluding interest	Interest income	Total	Outgo	Balance, end of year	Trust fund ratio (months)[a]
1986			$216.8	$201.5	$ 46.9	29
1987	$224.6	$ 5.2	229.8	209.7	67.0	31
1988	252.2	7.3	259.4	222.6	103.9	40
1989	269.1	10.3	279.5	238.1	145.2	53
1990	295.3	14.2	309.4	255.1	199.6	67
1991	315.6	18.6	334.2	273.2	260.5	83
1992	337.5	23.2	360.7	291.1	330.2	100
1993	359.7	28.0	387.6	309.5	408.4	117
1994	382.8	33.0	415.7	328.9	495.2	134
1995	407.0	38.4	445.4	349.4	591.2	152
1996	433.2	44.1	477.3	371.1	697.3	169

Projected status of OASDI Trust Funds (notch legislation)

	H.R. 1917				H.R. 121/1721			
	Cost	Outgo	Balance, end of year	Trust fund ratio (months)	Cost	Outgo	Balance, end of year	Trust fund ratio (months)[a]
1987	$15.5	$225.2	$ 51.6	29	$—	$209.7	$ 67.0	31
1988	5.6	228.3	81.3	32	2.2	224.9	101.5	39
1989	6.5	244.6	114.1	43	2.6	240.7	140.0	52
1990	7.3	262.4	158.5	53	2.7	257.8	191.2	64
1991	7.9	281.1	208.1	66	2.8	275.9	248.7	79
1992	8.3	299.4	265.1	79	2.8	293.8	314.7	95
1993	8.5	318.0	329.6	93	2.8	312.2	388.9	111
1994	8.7	337.6	401.7	107	2.8	331.6	471.6	127
1995	8.9	358.3	481.9	122	2.8	352.0	563.2	144
1996	9.0	380.1	571.2	137	2.8	373.7	664.7	161
Total cost, 1987-96	$86.4				$24.3			

[a] Assets at beginning of year as a percentage of outgo during year.

Source:
United States General Accounting Office, "Report to: the Chairman, Subcommittee on Social Security, Committee on Ways and Means, House of Representatives," "Social Security, The Notch Issue," March 1988, GAO/HRD-88-62, p. 77.

SOCIAL SECURITY UPDATE

SOCIAL SECURITY IS FINANCIALLY SOUND

The Social Security program continues to operate on a sound financial basis. Income to the Social Security trust funds is expected to exceed outgo by about $36 billion this year. Current estimates show that the program will be able to pay benefits into the next century, as is shown in the table below:

Year	Income	Outgo	Amount in Trust Funds
1988	$259 billion	$223 billion	$104 billion
1990	$309 "	$255 "	$200 "
2000	$0.6 trillion	$0.4 trillion	$1.3 trillion
2010	$1.2 "	$0.8 "	$4.5 "

BENEFITS TO 38 MILLION PEOPLE

The number of people who receive Social Security has risen to over 38 million this year. All received a cost-of-living increase of 4.2 percent in January. But Social Security is not just for retired people. Here is how benefits are being paid this year:

- 60 percent goes to retired workers.
- 10 percent goes to families of retired workers.
- 20 percent goes to survivors of deceased workers.
- 10 percent goes to disabled workers and their families.

Social Security is funded through payroll taxes paid by employers, employees, and the self-employed, and **not** from general revenues. Social Security is not a savings or checking account.

Excerpt from notice to Social Security recipients received in March 1988, from Dorcas R. Hardy, Commissioner of Social Security, U. S. Department of Health and Human Services, Social Security Administration, SSA Publication No. 05-10379, March 1988.

Chairman Jacobs. Thank you, Ms. Jones. [Applause.]
Mr. Lehrmann.

STATEMENT OF GENE LEHRMANN, MEMBER, BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. Lehrmann. Thank you, Mr. Chairman.

I am Gene Lehrmann from Madison, Wis. I am a member of the American Association of Retired Persons board of directors. I have served on AARP's National Legislative Committee for 5 years, and I am a member of the board of directors of AARP Vote.

AARP, representing the interest of 28 million persons 50 and over, appreciates the opportunity to present its views regarding the so-called Social Security notch. We commend Representative Jacobs for examining this increasingly controversial issue in a responsible and a thorough manner.

Since I was born in 1917, I am well acquainted with the concerns expressed by some people born between 1917 and 1921 about their Social Security benefit amount. As a result of misinformation about the intent and the impact of the 1977 Social Security Amendments, these individuals believe they are being discriminated against and petition changes.

AARP, along with the overwhelming majority of organizations representing older persons, maintains that Congress acted responsibly and appropriately in 1977 when it changed the overly generous benefit formula adopted in 1972.

Furthermore, the association believes legislation to change current law is not needed. Those born between 1917 and 1921, like myself, are not being cheated. We receive a fair benefit. Current legislative proposals to raise their benefits represent a serious threat to the long-term integrity of the Social Security trust funds. Lacking a financing mechanism, these proposals would siphon off trust fund reserves which cushion today's retirees against an economic downturn and which also are accumulating in anticipation of the retirement of our children and grandchildren, especially the 77 million baby boomers.

Those who support a change in the current law assert that the 1917 to 1921 cohort receives less favorable treatment than those born before and after them. The General Accounting Office report shows the transition groups' benefits may be higher, and certainly are not lower than those born after them. Undoubtedly, those born between 1912 and 1916 do better than all other beneficiaries, but this is not an acceptable rationale for perpetuating a costly mistake that threatens the integrity of the trust funds.

Those in the transition group feel especially aggrieved because they insist on comparing dollar benefit amounts. A Social Security benefit is not a guarantee of fixed dollar amounts. Instead, it replaces a portion or a percentage of a worker's earnings lost due to retirement, disability or death. Moreover, a benefit amount reflects a number of other factors, such as levels of earnings during a working life, the person's work history, age at retirement and year of birth. Also, these people claim that additional benefits would help the economically vulnerable. The GAO report concludes there is little, if any, gain for low income people from a change in the 1977 law. In fact, the vast majority of added benefits from a change would flow to those with higher lifetime earnings. And I must say I am one of those people.

AARP agrees with the GAO regarding the burdens that change would impose. They would either shrink the trust funds or impose additional payroll taxes on today's workers. The association continues to believe that we cannot sacrifice the interest of future retirees to meet the unreasonable demands of current retirees. Tampering with the system for the advantage of a small group of beneficiaries endangers the integrity of the Social Security system, a program which affects all Americans—workers, retirees, the disabled, and their families.

Thank you very much, Mr. Chairman.

[The statement of Mr. Lehrmann follows:]

STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP), representing the interests of over 28 million persons 50 and above, appreciates the opportunity to present its views regarding the so-called Social Security notch. AARP commends Representative Jacobs for examining this increasingly controversial issue in a responsible and thorough manner.

Unfortunately, because of misinformation about the intent and impact of the 1977 Social Security Amendments, many persons born between 1917 and 1921 believe they are being discriminated against. They contend their Social Security benefits have been reduced unfairly and they are petitioning Congress for a change. They also have called upon AARP to revise its current policy. Despite their persistent efforts, the Association, along with the overwhelming majority of organizations representing older persons, maintains that Congress acted responsibly and appropriately in 1977 when it changed the overly generous Social Security benefit formula adopted in 1972.

Furthermore, the Association believes that legislation to change current law is not needed. Those born between 1917 and 1921 are not being cheated. They receive a fair benefit. Current legislative proposals to raise benefits for those born between 1917 and 1921 represent a serious threat to the long-term integrity of the Social Security trust funds. Lacking a financing mechanism, these proposals would siphon off trust fund reserves which cushion today's retirees against an economic downturn and which also are accumulating in anticipation of the retirement of those born in the post-World War Two Baby Boom.

WHAT HAPPENED

In 1972, Congress increased Social Security benefits and provided an automatic, annual cost-of-living adjustment (COLA). Unfortunately, Congress made a serious error when it enacted a benefit formula which overcompensated for inflation. The result of this error was that those born between 1912 and 1916 received very high benefits, much higher than anyone had ever anticipated. Had that been allowed to continue, the Social Security System as a whole would have gone bankrupt and been unable to pay benefits to anyone. Even many of those born between 1917 and 1921 (the transition group) acknowledge the serious error Congress made in 1972.

Clearly, Congress had to take action to correct the 1972 error, and in 1977 Congress passed the Social Security Amendments. At that time, Congress had several choices: recoup benefits from those who had retired under the 1972 formula, raise payroll taxes to finance the costly mistake, or revise the benefit formula for subsequent retirees. Because it seemed unreasonable to take benefits from those already retired or burden current workers with increased payroll taxes, they chose to correct the benefit formula.

However, to cushion those who were about to retire and might have been expecting higher benefits, Congress decided to phase-in the new formula. While the House of Representatives and the Carter Administration as well as AARP supported a ten-year transition, Congress ultimately adopted a five-year transition period. Thus, those born between 1917 and 1921 had their benefits calculated under a special transition formula as well as under the "new" (1977) benefit formula. Those in the transition group get to use either of the two benefit formulae, whichever results in higher benefits. The benefits for everyone born after 1921 are based only on the new formula.

Even with the wisdom of hindsight, it is unclear whether a longer transition would have substantially altered the effects of the phase-in or the subsequent perceptions of injustice currently held by so-called "notch babies." Nonetheless, Congress clearly intended to change the formula and believed that five years was an adequate adjustment phase.

Also, Social Security faced a major financing crisis in 1983. Without the 1977 benefit formula change, the impact on all beneficiaries of the 1983 Social Security Amendments would have been much more severe.

ARGUMENTS ABOUT THE NOTCH

Advocates of changing the transition formula cite various arguments. Widely mentioned is the notion that the 1917 to 1921 cohort receives less favorable treatment than beneficiaries who retired before and after them. According to a recent General Accounting Office (GAO) report, the transition group's benefits may be higher and certainly are not lower than those born after them. Undoubtedly those born between 1912 and 1916 do better than **all other** beneficiaries, but that does not constitute an acceptable rationale for perpetuating a costly mistake that threatens the integrity of the trust funds.

Some born between 1917 and 1921 feel especially aggrieved because they insist on comparing dollar benefit amounts. A Social Security benefit is not a guarantee of a fixed dollar amount. Instead, it replaces a portion, or percentage, of a worker's earnings that he or she loses due to retirement, death, or disability.

Understandably people compare the amount of their checks. However, a worker's benefit amount is calculated on a number of factors including his or her level of earnings during a working life, the person's work history, age at retirement, and year of birth. Given these and other variables it can be misleading to compare dollar benefits among different beneficiaries to support the claim of discrimination.

The transition beneficiaries are not being cheated; they receive an equitable replacement rate consistent with beneficiaries born before 1910 and those born after 1921. Only one small group of beneficiaries received a bonanza; the rest did not. As long as those who feel cheated only look backwards at the small cohort preceding them, they will overlook the future burden their short-sighted perspective places on their children and grandchildren.

Recently, some have suggested that the perceived unfairness of the "notch" undermines confidence in Social Security. Public opinion surveys show that younger people are concerned about the future viability of the Social Security System and the ability of the system to pay adequate benefits when they retire. Using trust fund reserves now to finance additional benefits for some retirees at the risk of adequate reserves for future retirees could deepen already expressed concerns about the System's future financial soundness.

Finally, those who argue for additional benefits for the transition group claim that this would help economically vulnerable older persons. The recent GAO report concluded that those most likely to benefit from a change in the 1977 law are upper-income individuals. Those at the lower end of the income scale are likely to benefit very little, if at all, from a change.

WHO WILL PAY?

AARP agrees with the General Accounting Office that changing current law could impose serious burdens. For example, if an expensive benefit expansion were enacted without equal new financing, then the long-term integrity of the trust funds could be jeopardized. A small change in the 1977 Amendments would cost more than $20 billion over 10 years, a "moderate" change about $70 billion over the next decade and a more substantial change over $300 billion. Money taken from the trust funds for additional benefits now means that there will be less money available to help pay benefits in the future to today's workers.

On the other hand, the trust funds could be made whole by raising the payroll taxes on workers. The 1983 Social Security Amendments provided for two payroll tax increases in 1988 and 1990. They were part of a carefully crafted package in which current retirees and today's workers agreed to make sacrifices for the long-term soundness of the system. As the GAO says "imposing additional taxes on these current workers to finance a higher replacement rate for the notch group (many of which already receive a higher replacement rate than can be anticipated by current workers) would raise significant issues of equity."

CONCLUSION

AARP continues to believe that we cannot sacrifice the interests of future retirees to meet the unreasonable demands of some current retirees. As Senator Pepper says to his constituents who seek to change current law, "Because I would like nothing better than to raise the level of benefits for all of America's senior citizens if it were within our means to do so, I hope you will understand it saddens me deeply to have to hold to my position that the Notch is not the problem. It is the result of correcting a problem that posed a serious threat to Social Security."

The actions Congress took in 1977 were necessary. Social Security is a program that affects all Americans -- workers, retirees, the disabled and their families. To focus on the unwarranted demands of one small group of beneficiaries could threaten the fiscal soundness of Social Security, thereby affecting everyone.

Chairman JACOBS. Mr. Thorson of the VFW.

STATEMENT OF GORDON R. THORSON, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. THORSON. My name is Gordon R. Thorson and I serve as a special assistant to the National Legislative Service of the Veterans of Foreign Wars. Thank you for asking the Veterans of Foreign Wars to participate in this hearing, Mr. Chairman.

I am honored to serve and represent the viewpoint of over 2.9 million men and women that make up our membership of our proud organization and its Ladies Auxiliary.

We respectfully request that our full written testimony be made part of the permanent record. My oral comments will be brief and come straight to the point of this hearing.

Today's hearing has the full attention of most older Americans, many of whom are veterans. A good number of these men and women are now retired and struggling to lead productive and enjoyable lives in their retirement years with only the small subsistence provided them through their Social Security benefits.

Many of these Americans do not and cannot understand why they should receive less Social Security income, income they have earned, based solely on their date of birth. To quote from the recent GAO report, "No amount of technical discussion and sophisticated analysis is sufficient to convince an individual that it is equitable for him to receive a benefit that is $100 less than his nearly identical neighbor."

Mr. Chairman, the VFW will not attempt to argue each technical aspect of this issue, nor will we belabor the particulars of the GAO report. However, we would like to make one point abundantly clear. Those Americans born during the notch years should be given exactly what they were promised back in 1977, namely a gradual and equitable downward transition to the new, lower benefit structure.

Our bottom line in the notch is simply this, prior to enactment of the Social Security Amendments of 1977, the country was led to believe that a gradual and equitable benefit transition would take place during the phase-in period of the new Social Security benefit formula. Unfortunately, this well-intended promise did not come true.

In reality, large reductions or benefit differences occurred between those born in 1916 and those born in 1917 and beyond. The time is past due for an equitable solution and we ask Congress to rethink this problem and devise a new transition phase-in formula that would fairly compensate those Americans caught up in the transition notch period.

Thank you.

[The statement of Gordon R. Thorson follows:]

STATEMENT OF

GORDON R. THORSON, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

THE GENERAL ACCOUNTING OFFICE (GAO) STUDY,
"SOCIAL SECURITY: THE NOTCH ISSUE"

WASHINGTON, D. C. APRIL 14, 1988

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

It is a privilege for the Veterans of Foreign Wars of the United States to have an opportunity to participate during this important hearing. I proudly represent the interests of over 2.9 million men and women, who comprise the membership of our proud organization and its Ladies Auxiliary.

Today, we are challenged with the task of reviewing and expressing our opinion on the recently released General Accounting Office (GAO) Report entitled, "Social Security: the Notch Issue," and hopefully contribute toward a rational solution. Please realize that we are fully aware of the technical and political complexities of this issue and recognize that this benefit disparity affects a large number of Americans many of whom are military veterans.

During the most recent National Convention of the Veterans of Foreign Wars, our voting delegates passed several resolutions calling for legislation that would provide equity to all Americans participating in the Social Security benefit system. The VFW National Headquarters in Kansas City, Missouri, and our local Washington D. C. Office have received numerous letters and telephone calls asking us to lobby for fair and just treatment. We appear today looking for a final determination. GAO has completed a thorough review, the main problems have been identified and it is now time for Congress to take action.

The GAO Report does an excellent job of documenting and explaining an extremely confusing and controversial subject. This writer will not rehash or in any way refute the result of the GAO Report; the experts have made their analysis and there is no need to argue about their results. The GAO Report suggests the following findings:

- Americans born between 1910 and 1916 are currently receiving excessive compensation, as a result of earlier congressional action allowing automatic cost-of-living adjustments to social security benefits, as mandated by the 1972 Amendments to the "Social Security Act." Congress soon realized that the benefit formula was flawed and if allowed to continue would soon destroy the solvency of the Social Security Trust Fund thus requiring large future increases in payroll taxes to pay for the ever growing benefits. Immediate steps were needed to rectify this obvious overcompensation of pre-1917 retirees. Congress then passed the 1977 Amendments to the "Social Security Act," establishing a new formula specifically designed to eliminate overindexing and stablize replacement rates.
- Social security benefits for those Americans born between 1917 and 1921 (the "Notch Babies") are computed using the new 1977 formula with an additional cushion, a special transitional formula designed to help lessen the impact of the lower rates. However, even with the special transition formula, this group (the notch) receives comparatively less money than individuals born immediately before them (pre-1917); but generally higher than the replacement rate for succeeding groups of retirees (those born after 1921).

- Americans born after 1921 have their benefits computed using only the new formula and their replacement rate is typically lower than all other recipients born before 1922. This group is actually bearing the full brunt of the new reduced social security benefit structure.

After reviewing the full GAO report, numerous other reports, many letters from our constituency, and our national mandate (VFW resolutions), we realize that Congress has some very tough decisions to make. A wide-range of suggestions have been offered:

- Some propose taking a "do nothing approach" and suggest that given enough time the problem will resolve itself.
- Others propose slowing the growth of benefits for those currently receiving excessive benefits under the old law (people born before 1917). Proponents of this idea suggest that with time benefits will eventually equalize.
- Many suggest granting increased benefits for all people born between 1917 and 1921 or even expanding the notch and spreading the increased benefits over a 10 or 20 year period. This approach would expand the transition period and partially satisfy an expanded group of "Notch Babies."

Numerous other possible "solutions" have been offered. The reality of the problem is simply this: There cannot be a totally equitable solution, short of increasing the benefit rates for every recipient to a level equal to rates currently paid to recipients born before 1917. However, almost any reasonable person, group or organization should fully recognize that such an extreme solution would ultimately destroy the social security benefit program and no one would benefit.

The GAO Report is now a matter of public record and the factual information contained in that report should put an end to the previously held misconceptions, distortions and misinformation circulated by many well intended but misadvised people.

Mr. Chairman, you should be complimented for scheduling this hearing. The very fact that we are here today exchanging ideas and discussing a reasonable solution is a big step in the right direction. The VFW is confident that this learned congressional subcommittee will spearhead needed legislation aimed at restoring equity to our social security system. Let there be no further confusion or misinformation spread on this issue, let reason and equity guide this subcommittee toward a sensible solution. Numerous legislation has already been introduced during the 100th Congress aimed at correcting flaws in the social security system, such as H.R. 1917, which enjoys the support of over 155 congressmen and is widely accepted by most notch advocates. The facts have been reported, now it's time to translate this knowledge into legislative action.

Thank you.

Chairman JACOBS. Thank you, sir. Mr. Shulman.

STATEMENT OF LAWRENCE T. SMEDLEY, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF SENIOR CITIZENS, AS PRESENTED BY ERIC SHULMAN, DIRECTOR, LEGISLATIVE LIAISON AND RESEARCH, ACCOMPANIED BY ENID KASSNER, SENIOR POLICY ANALYST

Mr. SHULMAN. Thank you, Mr. Chairman.

My name is Eric Shulman and I am the legislative director at the National Council of Senior Citizens. In the interest of time, I will abbreviate my statement but request that our full written statement be included in the record.

I want to begin by praising the effort of the General Accounting Office, which has done an excellent job of explaining this highly complex and technical issue we call the notch. I sincerely hope this report will help dispel some of the unfortunate misconceptions that are widely held on the issue.

No single program has done more to protect senior citizens from the ravages of poverty and inflation in their older years than Social Security. Protecting the future of the system depends upon maintaining its fiscal soundness and broad public support. Unfortunately, the issue of the Social Security notch threatens to undercut both.

As the GAO report makes clear, the notch issue developed from an unintended flaw in the system of indexing benefits combined with the unforeseen inflation of the 1970's. If left unchanged, this flaw would have threatened the financial stability of the Social Security system.

The crafters of the 1977 amendments, designed to correct the problem, recognized that there would be a disparity in benefit levels with the implementation of the new benefit formula. But higher than anticipated inflation resulted in enormous increases for persons in the years immediately preceding the new formula. The juxtaposition of these wildly inflated benefits and the more appropriate revised benefits led to the perception of an unfair disparity.

Congress deliberately chose not to revoke the excessive benefits of the so-called bonanza babies, feeling that they should not be penalized for an unintended error in the formula. What was not foreseen was the perhaps inevitable human jealously of people who just barely missed out on this windfall.

The notch issue has now spawned a host of legislative solutions which, in our view, would only serve to worsen the problem. The notch legislation receiving the greatest attention would result in a loss to the Social Security trust funds of $75 to $80 billion over 10 years.

GAO clearly states that such legislation would adversely affect the system's attainment of minimum contingency reserve levels. Further, in the event of an economic downturn, which many economists predict in the near future, these notch proposals would again put the system at serious risk.

Significantly, none of the legislative notch proposals provide for replacement of the billions of dollars that would be drained from the Social Security trust funds. In addition, if the notch babies are given higher benefits, succeeding retirees will then feel they have been unjustly penalized, creating a new notch and an endless problem.

NCSC could not support legislation which would threaten to jeopardize the financial stability and integrity of the Social Security system. We are concerned that if the notch issue is not handled properly, it could jeopardize broad public support for Social Security in two ways.

If the system begins to be widely perceived as unfair, support for it will falter. On the other hand, the GAO makes it abundantly clear that the notch babies receive higher replacement rates than many other Social Security recipients. If Congress is perceived as caving in to the illegitimate demands of one segment of the beneficiary population, at the cost of increased burdens on others, this too would likely undercut support for the Social Security system.

The GAO report has provided a good foundation from which to proceed in addressing the notch issue. NCSC believes it would be extremely helpful if the administration and Congress could join with organizations like ours to conduct a massive public education effort. We would like to see all Social Security recipients receive an official statement from SSA, in clear and understandable language, explaining the notch issue. This could do much to dispel the perceptions of unfairness in the Social Security system.

I thank you again for the opportunity to speak today and will be glad to answer any questions. Thank you, Mr. Chairman.

[The statement of Lawrence T. Smedley follows:]

STATEMENT OF LAWRENCE T. SMEDLEY, EXECUTIVE DIRECTOR,
NATIONAL COUNCIL OF SENIOR CITIZENS

Chairman Jacobs, members of the Subcommittee, I am Lawrence Smedley, Executive Director of the National Council of Senior Citizens. I appreciate the opportunity to appear today to discuss the issue of the Social Security "notch."

I want to begin by praising the effort of the General Accounting Office which has done an excellent job in explaining the highly complex and technical issue of the notch. I sincerely hope this report will help to dispel some of the unfortunate misconceptions that are widely held on this issue.

As an organization representing 4.5 million members in local clubs around the country, NCSC has been and will continue to be a staunch advocate of Social Security. No single program has done more to protect senior citizens from the ravages of poverty and inflation in their older years. It is our belief that protecting the future of Social Security depends upon two equally important, fundamental principles. First, the fiscal soundness of the system must be maintained for current and future beneficiaries. Second, public support for Social Security must continue.

Unfortunately, the issue of the Social Security "notch" threatens to undercut the foundations of both these principles.

History of the Notch

As the GAO makes clear, the notch issue developed from Social Security amendments enacted in 1972 and 1977. The 1972 amendments provided, for the first time, automatic indexing of Social Security benefits for inflation. This measure achieved an important social goal of alleviating poverty among the elderly. At the time, poverty among the aged was nearly double that of all other age groups; now it is on a par with that of the overall population.

Unfortunately, an unintended flaw in the new system of indexing, combined with the unforeseen inflation of the 1970s, resulted in benefit increases far in excess of what had been intended. Essentially, retirees were receiving dual compensation for the effects of inflation and some projections indicated that, ultimately, wage replacement rates could have exceeded 100 percent of earnings.

Most important, this flaw in the formula, if left unchanged, would have threatened the financial stability of the Social Security system. Without revision of the benefit formula, escalating expenditures could have led to bankruptcy of the system or prohibitive payroll tax rates, perhaps as high as 20 percent.

Hence, the 1977 amendments were designed in order to eliminate the over-indexing of benefits and stabilize the replacement rates. Understanding the concept of replacement rates is critical to a grasp of the notch issue.

Social Security does not provide more than a floor of benefits, which must be supplemented by pension income and savings. Recognizing that lower-paid workers are less able to save for their retirement, the system replaced a higher proportion of the wages for low-wage earners. This achieved a deliberate social goal of addressing both social adequacy and individual equity.

The purpose of the 1977 amendments was to reduce and stabilize the replacement rate, so that retirement benefits would replace a predictable proportion of average annual lifetime earnings. The amendments also intended to safeguard the financial stability of the Social Security trust funds without inequitably burdening any group of workers.

The crafters of the 1977 amendments recognized that there would be a disparity in benefit levels with the implementation of the new benefit formula. They attempted to lessen its magnitude by instituting a five-year transition period. These transition years pertain to persons born between 1917 and 1921 and are now referred to as the notch years.

Persons born in the transition years have their benefits calculated twice--using both a transitional formula and the new formula. Their benefit level is the higher of the two. As GAO points out, the replacement ratios of persons in the transition, or notch, years actually ended up being somewhat higher than originally anticipated.

But what was even more dramatic was the enormous increases received by persons in the pre-transition years. The impact of inflation on the old, flawed, formula yielded exceptionally high replacement rates. The juxtaposition of wildly inflated benefits and the more appropriate, revised benefits led to the perception of an unfair disparity.

As GAO reports, this issue began to receive wide public attention when these complex and technical issues were oversimplified in two "Dear Abby" columns. The columns left readers with misleading and erroneous information and the damaging public perception that Social Security had arbitrarily penalized one group of retirees.

Looking only at certain notch examples, which show two persons with similar work histories receiving substantially different benefit levels, due to an accident of birth, would strike anyone as being unfair. But as the GAO so aptly states, "The clarity of examples that illustrate the notch contrast rather sharply with the complexity of factors underlying the problem."

What is ironic is that the supposedly maligned "notch babies" receive benefit levels as intended by Congress. The "injustice" is that persons in the pre-transition years, sometimes called "bonanza babies" receive significantly higher benefits than ever intended.

Congress deliberately chose not to revoke the excess benefits of the bonanza babies, feeling that they should not be penalized for an unintended error in the formula. What was not foreseen was the perhaps inevitable human jealousy of persons who just barely missed out on this windfall.

In addition, the complexity of the notch situation defies oversimplified characterizations. GAO contends that, depending on individual work histories, some notch babies receive higher benefits than they would under the old formula. The authors also emphasize that the replacement rate for notch retirees is generally higher than for succeeding groups of retirees. The report states, "It is perhaps more appropriate to describe the notch as really only part of a larger 'mountain' of higher-than-intended replacement rates."

Maintaining the Fiscal Solvency of Social Security

Surely the notch issue seems to be governed by the "Law of Unintended Consequences." Created out of deep concern for the long-term financial security of the Social Security system, this issue has now spawned a host of legislative "solutions" which, in our view would only serve to worsen the problem.

The notch legislation receiving the greatest attention would result in a loss to the Social Security Trust Funds in the range of $70-$85 billion, over ten years. GAO clearly states that such legislation would adversely affect the system's attainment of minimum contingency reserve levels. Further, in the event of an economic downturn, which many predict in the near future, these notch proposals would again put the system at serious risk.

Significantly, none of the legislative notch proposals provide for replacement of the billions of dollars that would be drained from the Trust Funds. Congress has already rejected recouping the "bonanza babies'" windfall. The only option left would be to impose higher payroll taxes on current workers, or reducing benefits for all recipients.

This would constitute a serious inequity for today's workers who already pay higher payroll taxes to partially fund future benefits and who would receive lower replacement rates than the notch babies for whom they would pay still higher taxes. In addition, if the notch babies are given higher benefits, succeeding retirees will then feel they have been unjustly penalized, creating a new notch, and an endless problem.

NCSC could not support legislation which would threaten to jeopardize the financial stability of the Social Security system. Social Security is our nation's finest social policy success upon which nearly all Americans will one day rely. Nothing must be allowed to imperil its economic foundation.

Maintaining Public Support for Social Security

Public opinion polls have consistently shown broad public support for Social Security. NCSC is concerned that, if the notch issue is not handled properly, it could jeopardize this support in two ways.

First, as the GAO report so aptly states, "No amount of technical discussion and sophisticated analysis is sufficient to convince an individual that it is equitable for him to receive a benefit that is $100 less per month than his nearly identical neighbor." If the system begins to be widely perceived as unfair, support for it will surely falter.

On the other hand, the GAO makes it abundantly clear that the "notch babies" in fact are not receiving lower benefits that is appropriate. Many receive higher replacement rates than many other Social Security recipients. Furthermore, those who experience the largest disparities vis a vis the "bonanza babies" tend to have higher relative income and assets. Consequently, if Congress is perceived as caving in to the illegitimate demands of one segment of the beneficiary population, at the cost of increased burdens on others, this too would likely undercut support for the Social Security system.

Already, many in the media are quick to declare that the elderly are greedy, that they get more than they deserve while child poverty increases. NCSC and its members have always stood for an America which is responsive and fair to all its vulnerable citizens, regardless of age. We have consistently tried to work constructively with the Congress to address problems facing the elderly. We would regret action being taken on the notch issue which could have the unintended result of weakening support for Social Security.

We are also deeply concerned that the current proposals which purport to correct the notch would simply perpetuate the problem. If benefits are increased for this cohort, succeeding retiree groups will then undoubtedly feel that their benefits are too low. Where would the cycle end?

Recommendations

We believe the GAO report has provided a good foundation from which to proceed in addressing the notch issue. We hope it will be widely read by members of Congress before notch legislation is considered.

NCSC believes it would be extremely helpful if the Administration and Congress could join with organizations like ours to conduct a massive public education effort. We would like to see all Social Security recipients receive an official statement from SSA, in clear and understandable language, explaining the notch issue. This could do much to dispel the perception of unfairness in the Social Security system.

It is critical, both for reasons of fiscal prudence and public perception, that Congress consider the deleterious impact that could result from ill-conceived notch legislation. Furthermore, we regret that the notch situation deflects attention from pressing issues, such as long-term care and poverty among the elderly, which constitute far more serious problems for older persons and their families.

I thank you again for the opportunity to speak today and will be glad to answer any questions you may have.

Chairman Jacobs. We are very pleased to have our next witness, Ms. McSteen, former Commissioner of Social Security. Please proceed.

STATEMENT OF MARTHA McSTEEN, LEGISLATIVE CONSULTANT, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, ACCOMPANIED BY ALLEN JOHNSTON, DIRECTOR, DEPARTMENT OF GRASS ROOTS ACTION

Ms. McSteen. Thank you, Mr. Chairman, and thank you for holding this hearing. I am Martha McSteen, representing the National Committee to Preserve Social Security and Medicare. With me is Allen Johnston, the director of Grass Roots Action.

I will make a brief statement and ask that the written statement be entered into the record.

The difference between the intention of Congress and the real effects of the law have created the controversy we examine today. The National Committee endorses the Ford-Sanford notch bill because it would most closely fulfill the 1977 intent of Congress, to gradually phase in the new stable benefit formula.

We believe, from contemporaneous records, that what Congress intended in 1977 was the gradual, almost imperceptible, reduction in benefits phased in over a 5-year period. But instead of the gradual, 5-percent reduction in benefits spoken of in floor debate by then Ways and Means Committee Chairman Al Ullman, reductions in benefits for average wage earners grew to as much as 25 percent, up to 10 percent for the first year for age 65 retirees.

Instead of a replacement rate stabilized at 43 percent as promised in 1977, replacement rates for notch victims actually dropped below 41 percent with each percentage point representing about $170 a year loss.

The Ford-Sanford bill would provide a gradual transition in replacement rates.

In addition to analysis of replacement rates, the National Committee believes that Congress should evaluate short term equity in terms of monthly benefits and dollar amounts. The simplest way to look at the notch and the impact of the Ford-Sanford notch bill on benefits is to compare average benefits, as we have done on the chart displayed.

Beneficiaries born between 1917 and 1928 receive, on average, $660 less per year than beneficiaries born between 1912 and 1916. Under H.R. 3788, beneficiaries born between 1917 and 1928 would receive $353 per year more than under the current law, but $307 less per year than beneficiaries born between 1912 and 1916. The largest increases would go to those born between 1919 and 1923 and those retiring after age 62, because they received the largest losses of all.

Social Security knew as early as 1978 that this formula was producing unanticipated results. Unfortunately, the problem was not corrected then. Given the emerging Social Security financing problems, it is perhaps understandable that Congress did not correct the problem then. But by 1986, Congressman Matthew Rinaldo asked the national committee to help with the House Aging Committee's stalled initiative to correct the longstanding notch inequity.

To date, more than 200 members of Congress have cosponsored bills to correct the inequity. We believe that the Ford-Sanford bill is the best of those efforts. It has the support of grass roots notch leaders across the country. It does not offer full compensation for benefit losses over the years and is therefore less expensive than most other legislation.

I would also emphasize that the Ford-Sanford notch bill is the only legislation that targets benefit increases to low and moderate income beneficiaries. The Ford-Sanford notch bill is, in fact, a careful balancing of equity and fiscal responsibility.

The national committee believes that Congress can correct the notch without undermining the financial condition of the Social Security trust funds. Were that not the case, we would not advocate for a correction. Notch victims would gain little if a solution to the problem undermined Social Security's short term financing and they are equally concerned about the long term financing of Social Security which affects their children and their grandchildren.

The Ford-Sanford notch bill does not jeopardize either the short term solvency of the fund or the long term balances. Given that the trust funds have at least $27 billion more in them today than was anticipated in 1983, the correction we believe is fiscally sound.

As you can see from the second chart, the 10 year cost of the Ford-Sanford bill is a small portion, one-tenth of the projected increase of the Social Security trust funds. The long term costs are one-half of 1 percent of the total cost of Social Security. The bill can be financed out of currently projected surpluses without raising payroll taxes.

Equally as important as the financing of Social Security is the public's perception of the system's fairness. GAO recognized that resolution of the notch will affect the public's perception of the system's fairness.

The Congress now has an opportunity to address the notch issue and restore confidence in the fairness of the Social Security system. In essence, the Ford-Sanford bill phases in the 15-percent reduction from the 1977 benchmark levels that actually occurred over 10 to 15 years rather than 5 years under current law. We believe that this is in keeping with the congressional intent to phase in a 5-percent reduction over 5 years.

On behalf of our 5 million members and supporters, I urge the subcommittee to adopt the Ford-Sanford notch bill and put an end to the disparity of benefits that has been with us for over a decade. Thank you, Mr. Chairman.

[The statement of Martha McSteen follows:]

STATEMENT OF MARTHA MCSTEEN, REPRESENTING THE NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

I am Martha McSteen, senior legislative counsel to the National Committee to Preserve Social Security and Medicare. The National Committee represents over five million Americans, approximately one quarter of them born between 1917 and 1928 and, therefore, potentially affected by the Social Security Notch. Accompanying me today is Allen Johnston, Director of our Department of Grassroots Action.Prior to joining the National Committee, I worked for the Social Security Administration for over 30 years. During the last three years, I was Acting Commissioner and testified before this Committee on occasion. This is my second appearance before your Subcommittee in my current capacity and, as always, I appreciate the opportunity to be with you. Mr. Johnston is our technical expert in this area. He was employed by SSA for seven years and by the Congress for six years. As staff director of the House Aging Committee's Subcommittee on Retirement Income and Employment from 1983 to 1986, Mr. Johnston worked closely with Chairman Roybal in developing legislation and advocating for a Notch correction.

On behalf of the 20 million Americans potentially affected by the Notch, I want to thank you for holding this hearing to review the impact on beneficiaries of the 1977 Social Security Amendments. We have attached to this statement detailed case histories of five National Committee members, who are representative of the major benefit disparities that Notch victims can experience.

I realize some witnesses today will tell you the Notch is not a problem. I daresay there are some on this panel who feel the same way. But the fact that there is a problem has been clearly shown any number of times -- most recently by the General Accounting Office's report done at the request of the former chairman of this subcommittee. As the GAO said:

> No amount of technical discussion and sophisticated analysis is sufficient to convince an individual that it is equitable for him to receive a benefit that is $100 less per month than his nearly identical neighbor (GAO/HRD-88-62, p. 90).

The existence of the notch problem was recognized as early as three months after passage of the 1977 amendments. A. Hayworth Robertson, Chief Actuary for the Social Security Administration, writing in an article for the March, 1978 *Social Security Bulletin* (p. 22) stated, "A transitional provision included in the amendments is intended to ensure that benefit levels for retiring workers will not change abruptly from the old law to the new, but a minor technical amendment may be necessary to provide a smoother transition." Had the problem been corrected in as timely a fashion as was done with the 1972 benefit formula problem, we would not be here today. With a new financing crisis looming, however, it was understandable, but unfortunate, that Congress put off solving the Notch.

> **Notch victims are confident that today's hearing will prove to you that the 1977 Social Security Amendments did cause unintended benefit inequities and that there is a need for legislation to correct the Notch. We urge the Subcommittee to consider H.R. 3788 introduced by Rep. Harold Ford, a senior member of the Ways and Means Committee. His legislation, and companion legislation (S. 1830) introduced by Senator Terry Sanford, would most closely fulfill the 1977 intent of Congress to gradually phase in the new stable benefit formula. The Ford/Sanford Notch bill is, in fact, a careful balancing of benefit equity and fiscal responsibility.**

Over 200 members of Congress have cosponsored bills to correct the Notch. One of those bills was introduced by a Member of this Subcommittee, Congressman Hal Daub. While the National Committee supports the Ford/Sanford Notch bill, we want to praise Congressman Daub for putting forward a constructive proposal.

The National Committee believes that Congress can correct the Notch without undermining the financial condition of the Social Security Trust Funds. Were that not the case, we wouldn't advocate for a correction. Notch victims would gain little if a solution to this problem undermined Social Security's short term financing, and they are equally concerned about the long-term financing of Social Security which affects their children and grandchildren.

However, equally as important as the financing of Social Security is the public's perception of the system's fairness. GAO recognized that resolution of the Notch will affect the "public's perception of the system's fairness (GAO, p. 16)." The failure of

Congress to correct benefit inequities would continue to undermine confidence in Social Security.

CONGRESS INTENDED A GRADUAL TRANSITION

While the National Committee has strongly advocated a correction of the Notch, it has never challenged the intent of Congress to institute a new benefit formula to lower and stabilize replacement rates for future beneficiaries. In that regard, the 1977 Amendments appear to be successful. We have argued, however, that Congress did not believe they were cutting benefits as much as - and as abruptly as - they did. It is the abrupt transition that fails to meet standards of equity held by most Americans.

The most simple explanation for the failure of the 1977 Amendments to meet Congressional intent is that Congress did not have sufficient information to determine the impact of short-term benefit changes when it made its decision to change the benefit formula. At the same time, changes to provide a smoother transition to the new benefit formula would have complicated the overriding goal of resolving a short-term financing crisis including the resolution of other more controversial issues in 1977, namely the increase in tax rates and covered earnings, a rise in the retirement age and universal coverage. In fact, the 1977 Amendments were so controversial that a majority of current members of the Ways and Means Committee, including you, Mr. Chairman, voted against the Amendments.

Probably the biggest disappointment of the GAO report is that it fails to document the legislative history of what Congress intended in the 1977 Amendments, as specifically requested by the Subcommittee chairman in his letter of request. We find it curious that GAO can determine the intent of Congress in 1977 without referencing any contemporaneous documents. Instead the report tries to make the case that since the legislation worked the way it did then Congress must have intended it to work that way.

If GAO had looked at the record contained in the Committee and Conference Reports and floor debate in 1977 – instead of relying primarily upon data produced by the Social Security Administration (SSA) in the 1980s -- it would have found that Congressional intent was very clear. First, replacement rates would be reduced no more than five percent over five years. Second, benefit amounts in constant dollars were not expected to fall.

In defending the House legislation during the floor debate, Ways and Means Committee Chairman Al Ullman explained the benefit formula:

"The provisions are designed to stabilize future benefit replacement rates on a permanent basis at about 5 percent less than those that will be paid in 1979. (CR, H11531)"

According to Ranking Minority Member Barber Conable, "This bill stabilizes (replacement rates) at a level about 5 percent lower than those existing in January 1979. I think that is a sound proposal, and I am glad it is in there. (CR, H11539)" Congressman Richard Gephardt, a Member of this Subcommittee, stated "This bill fixes and stabilizes the replacement rate at an average of 43%for all times in the future. If this bill did nothing more than this it would be a huge success. (CR, H11559)"

The Senate receded to the House in Conference, but the intent of the Senate bill was a similar 43%replacement rate. According to Senator Gaylord Nelson, Social Security Subcommittee chairman, "Under the Finance Committee bill, the average worker would receive a replacement rate in retirement 43% of his earnings the year before retirement. (CR, p. 36480)"

In addition to the above explanation, the House Committee Report also included a table indicating that replacement rates for the average earner would drop from 44% to 43%, an imperceptible drop (Attachment B). The table, however, did not have year to year projections between 1979 and 1985 and it was only made clear in small print in a footnote that the table referred to retirement at age 62. A similar chart was inserted in the Congressional Record during the Senate debate (CR, . 37186).

Even GAO states, "it was generally anticipated that the phase-in would prevent a significant drop in the benefit levels of retirees in the transition period (GAO, p. 39)." And Members of Congress did not believe that the dollar amount of benefits would drop. Congressman Sam Gibbons, a Member of this Subcommittee, in fact, opposed the 1977 Amendments partly because ". . . once again we are increasing benefits (House Report No. 95-702, p. 292)." According to a 1985 study by the American Enterprise Institute, *Proposals to Deal with the Social Security Notch Problem*, "the Congress probably thought that... the actual nominal benefit levels would rise over time (AEI, p. 50)."

A June, 1977 Senate Finance Committee Print analyzed the impact of five options for changing the benefit formula (Senate Finance Committee Print, June 1977, pp. 51-9). Even under the most conservative option where replacement rates would continue to decline, the actual dollar amount of benefits in constant dollars would increase! Minority Members of the Ways and Means Committee developed an alternative proposal which they defended, "Nor does it mean that dollar amounts of benefits paid in the future would be lower than present levels. To the contrary, dollar amounts - as well as purchasing power of benefits - for future retirees would be higher than present levels (House Report No. 95-702, p. 300).

Certainly, I believe we can all agree that reductions of $50 or $100 a month were neither anticipated nor intended by this Committee.

The GAO report, using information available in the years after enactment, explains that a five percent cut in replacement rates for age 62 in relation to the benefit formula produced a 10% reduction for age 65 retirees. From records we have reviewed, this was never the intent of the Congress. The first reference to this quantum leap came in a March, 1978, *Social Security Bulletin* article by the Chief Actuary (p. 23). Members of Congress might have been very surprised if they had seen the table included in the article showing a 12% drop in the replacement rate at age 65 from 47% to 41% for the very first transition year (p. 23)! One month later this Committee printed a summary specifically restating its intention to reduce replacement rates no more than five percent.

> "The benefit level adopted for the long-term is 5 percent below estimated 1979 levels. Included in the legislation is a 5-year quarantee of December 1978 levels to provide a gradual transition to the new system for workers who will reach age 62 in 1979 through 1983 (WMCP 95-72, p. 3)."

Blaming the high inflation of the late 1970s for the disparity in benefits, rather than the formula contained in the 1977 amendments, is a familiar theme of opponents of Notch reform. But as AEI said:

> "Even if the inflation assumptions made in 1977 had turned out to be accurate, however, the notch would have existed, and in percentage terms the benefit differences it created would not have been much smaller than those that arose. The fact is that the notch arose directly from the provisions enacted in 1977, not from the unexpected economic conditions that followed. (AEI, p. 52)"

An SSA actuary quoted by GAO essentially concurs (GAO, p. 40).

Given all the talk in 1977 about the rapid rise in replacement rates under the 1972 law, it is curious why SSA did not anticipate that replacement rates would continue to rise as they actually did. Instead SSA projected that, in the short-term, replacement rates would level off for the age 65 retiree or even drop for the age 62 retiree under the so-called faulty 1972 benefit formula, even though this was contrary to the trend from 1970 to 1976.

But even if some of the fault lies with unanticipated economic conditions which affected benefits in a way different than expected, it should have been a motivating force to correct the problem -- not an excuse to do nothing. After all, unanticipated economic conditions in the mid-seventies motivated Congress to act in 1977.

FORD/SANFORD NOTCH BILL WOULD FULFILL ORIGINAL CONGRESSIONAL INTENT FOR A GRADUAL TRANSITION

In limiting the analysis of the 1977 Amendments only to replacement rates, the Committee was asking for trouble. While a steady replacement rate was a reasonable long-term goal, it was an imperfect tool to measure short-term equity. According to the GAO report, it is the significant disparities in benefit amounts, not replacement rates, which "has created this controversy (GAO, p. 87)." In addition to analysis of replacement rates, the National Committee believes that Congress should evaluate short-term equity in terms of monthly benefits in dollars.

Fortunately, GAO's report went beyond an analysis of replacement rates to an analysis of the impact on monthly benefits. But the report only compares benefits for "typical" workers retiring at age 62 and 65 -- even though the earnings records used to develop these estimates are not really typical, especially for the average retiree. According to SSA statistics, average benefits for a retiree born in 1916 are $555, $156 less than the $711 monthly benefits shown in Table 4.4 of the GAO report for the average earner born in 1916 and retiring at age 65. This is why the National Committee supplements both analyses with a chart using average benefits, which is based on benefits that retirees are actually receiving (Table 71 of SSA's Annual Statistical Supplement for 1987) and estimates which have been reviewed and concurred with by SSA.

No matter how you look at the results of the 1977 amendments, you cannot escape the reality that benefit levels declined far more than expected. The decline was not gradual and was far more than five percent. Because the Notch is two to three times larger than intended, the transition period should be two to three times longer than the five years finally enacted. The Ford/Sanford Notch bill would provide a gradual transition over 13 years to the new, stable benefit formula regardless of the measure used to analyze benefits: average benefits, benefits for the average worker or replacement rates.

Unfortunately, Members of the Subcommittee will not see any analysis of benefit projections for any proposed legislation from reading the GAO report. In effect, GAO makes the same error made in 1977 -- it fails to study the impact of proposed solutions on beneficiaries. In fact, the only solution which GAO examined for its impact on beneficiaries (Appendix VII, GAO, p. 103) was not related to any proposed legislation, would create even a more severe notch than current law and targets most of the additional benefits to those who already have the highest benefits.

The simplest way to look at the Notch and the impact of the Ford/Sanford Notch bill on benefits is to compare average benefits (Attachment C). This is the way the National Committee primarily explains the Notch to our members. Beneficiaries born between 1917 and 1928 receive, on average, $660 less per year than beneficiaries born between 1912 and 1916. **Beneficiaries born between 1919 and 1923 receive the lowest dollar benefits of all.** The maximum percentage drop between 1916 and 1920 is 18%

Under the Ford/Sanford bill, beneficiaries born between 1917 and 1928 would receive $353 per year more than under current law, but $307 less per year than beneficiaries born between 1912 and 1916. The largest increases would go to those born between 1919 and 1923. The bill does not restore the so-called "bonanza" of the pre-notch years; it merely extends the transition to 1928.

The GAO report defends the five year transition but does acknowledge that "the transition phased out more abruptly than anticipated (GAO, p. 39)." Mr. Chairman, the National Committee believes that it is necessary to lengthen the transition period in order to provide a gradual transition. The Notch affects more than those beneficiaries covered by the current transition, beneficiaries born between 1917 and 1921. Notch legislative remedies which do not extend the transition would still leave a notch.

The GAO report did not make comparisons using average benefits but using "typical" workers retiring at age 62 and 65. Even GAO's benefit comparisons demonstrate a clear, unintended Notch inequity. Table 4.4 shows a $139 monthly difference in benefits between the average earner retiring at age 65 who was born in 1916 and a similar earner born in 1920, a 20% difference. There is a $55 monthly difference in benefits between the average earner retiring at age 62 who was born in 1916 and the earner born in 1920, an 11% difference.

The GAO report does not present benefits for average earners born after 1921, but our review of SSA estimates indicates that the average earner born between 1917 and 1928 and retiring at age 65 would receive $732 a year less on average than a similar earner born between 1912 and 1916. Attachment D shows how the Ford/Sanford bill would correct this Notch by increasing benefits an average of $600 a year for the age 65 retiree.

The GAO report makes it clear that the impact of the Notch on a worker retiring at age 62 is not as severe as the impact on a worker retiring at age 65. As a consequence the transition guarantee in the Ford/Sanford Notch bill phases out more rapidly for the average worker retiring at age 62 than it does for the similar worker retiring at age 65. In addition the average worker born in 1917 who retired at age 62 would receive no increase in benefits because he is already receiving more than a similar worker born in 1916. The Ford/Sanford Notch bill restores benefits only for the average age 62 retiree born between 1918 and 1925 (See attachment E).

Because the Notch affects workers retiring at age 65 more than those retiring at age 62 it is a disincentive to work past age 62. We are surprised that the Administration refuses to at least acknowledge the work disincentive embodied in the Notch benefit formula, given the Commissioner's advocacy of eliminating the retirement test because it, too, is a disincentive to work.

Finally, using replacement rates, the reduction for an age 65 retiree was 15% from 48.1% for the worker who retired in 1979 to the low of 40.9% for a similar worker who was born in 1920. According to Chairman Al Ullman, Congress intended in 1977 a five percent reduction from 1979 levels. The maximum reduction, however, was 25% from a high of 54.4% for the worker born in 1916 who retired in 1981. The drop in replacement rates in the first year was actually 10%. Attachment F shows how the Ford/Sanford Notch bill would implement the gradual transition in replacement rates that Congress wanted.

Even more interesting than the decline in replacement rates is what replacement rate Congress actually intended in 1977 for the average worker. The Ford/Sanford Notch bill does not modify the current law benefit formula that results in a target replacement rate of 41%, even though the GAO report indicates the target replacement rate should be 42%. But the record does not even support the contention that Congress intended a 42% replacement rate as the target. At a minimum, the record would indicate a target replacement rate of 43% which was the only replacement rate shown in the House Committee report, even if it was only for an age 62 retiree. However, if the 1979 replacement rate for an age 65 retiree of 46.7% were reduced five percent, using the formula for the maximum reduction in replacement rates described by the Ways and Means Committee Chairman during the 1977 debate, the result would be a target replacement rate of 44.4% for the average worker retiring at age 65.

Former HEW Secretary Arthur Flemming in his testimony at the Senate Aging Committee hearing on February 22, 1988, indicated that the financing of the Social Security system "had been based on the replacement of the average worker's earnings at about 45%." During the Senate floor debate on the 1977 amendments, Senator Gaylord Nelson submitted for the record a letter from the American Association of Retired Persons that stated, "We wish to endorse specifically the 'decoupling' provisions of the bill. The wage indexing approach should maintain over time the current 44% replacement ratio of benefits at retirement to gross earnings just prior to retirement (CR, p. 36451)." Also submitted for the record was a letter from former Social Security Commissioner Robert Ball praising the Senate Finance Committee bill which guaranteed that current contributors "will receive benefits that are the same proportion of recent earnings when they retire as was true for workers retiring in 1976 (CR, p. 36452)." According to the GAO report the replacement rate in 1976 was 43.7% for the age 65 retiree.

According to table 4.5 in the GAO report, replacement rates for beneficiaries born after 1918 and retiring at age 65 are two to four percentage points lower than the 43% to 45% replacement rates Congress intended. Since every percentage point in replacement rate represents $170 a year to the age 65 retiree in 1986, this difference alone represents $340 to $680 a year for many Notch victims as well as future retirees.

FORD/SANFORD NOTCH BILL TARGETS BENEFITS TO LOW AND MODERATE INCOME NOTCH VICTIMS

One argument against correcting the Notch is that such action would primarily benefit high income beneficiaries. GAO's report concluded that higher income beneficiaries suffered the largest Notch losses, but such a conclusion is not surprising given that Social Security is an earnings-related program. And if any Notch correction remains consistent with Social Security's traditional earnings-related philosophy, the largest dollar amounts will go beneficiaries with the largest dollar losses.

However, this concern should be placed in perspective. Even the average retiree born in 1916, the birth year most advantaged by the unforeseen results of the 1972 amendments, received only $6,660 in Social Security retirement benefits last year. The average annual benefit of a worker born in 1920 was only $5,460. Even the higher figure is not an excessive amount of retirement income.

In regards to who would benefit from Notch correction legislation, I would also emphasize that the Ford/Sanford Notch bill is the only legislation that targets benefit increases to low and moderate income beneficiaries. It does this by limiting earnings used in the proposed transition formula and by limiting retroactive payments to a maximum of $1,000 per family. Earnings used in the benefit formula are limited only to earnings through age 65 and up to a frozen maximum of $29,700 a year.

But don't let the fact that higher income beneficiaries suffered the greatest losses hide the terrible impact of the Notch on workers with low career earnings – a fact ignored in the narrative of the GAO report. The Notch is most severe for those who do not retire early. Many of these are low income workers who cannot afford to retire early.

The harsh effect of the failed transition on low wage earners is evident by the fact that without the special minimum computation, many low earners would have received even less than they did. Table 4.3 of the GAO report shows that the low earner born in 1919-1921 who retired at age 62 received only $308 in monthly benefits last year ($3,696 a year) and that amount was based on the special minimum computation. It would have been less under either the transitional guarantee or the new benefit formula! The 1977 transition formula also failed the low earner born in 1920-1921 who retired at age 65 who also was helped by the special mimimum computation. But many minimum wage workers may have fallen through the special minimum computation safety net since the minimum wage, frozen since 1981, is now $1,432 less than the amount needed to qualify for a special minimum computation year.

In Appendix II, the GAO report refers to SSA's 1982 New Beneficiary Survey (NBS) as "perhaps the best available source of data applicable to the Chairman's request" for social and economic characteristics of the beneficiary groups disadvantaged by the Notch (GAO, p. 97). Mr. Chairman, even if the NBS is the best available data, the conclusions of the GAO report in Chapter 7 are of limited value. First, new beneficiaries historically are the most well off of all retiree groups. And second, GAO indicates that they restricted their "analysis to married males (p. 76)," the group of retirees most likely to have assets and pensions.

FORD/SANFORD NOTCH BILL IS FISCALLY RESPONSIBLE

The Ford/Sanford Notch bill is the least expensive of all the bills which seek to correct the Notch for beneficiaries born after 1916 without still leaving a notch. It has the support of the majority of the independent grassroots activists as the result of the National Committee's close cooperation with them to develop a workable compromise.

The original H.R. 1917 (99th Congress) was almost six times more expensive than the Ford/Sanford Notch bill. And even though the Ford/Sanford Notch bill protects more beneficiaries than the current H.R. 1917, it is 20% less expensive. The Ford/Sanford Notch bill is less expensive because it targets benefits to low and moderate income beneficiaries and because it eliminates new recomputations to persons born before 1917 who continue to work and receive "double-indexed" benefit increases.

The latter provision alone saves $4 billion over 10 years. This provision, similar to proposals made by HHS and former Social Security chief actuary Robert Myers in 1979 (GAO, pp. 55-56), could have saved substantially more money if implemented earlier. If Congress had enacted this provision earlier, the so-called bonanza effect could have been curtailed and a Notch solution would be even more affordable.

Some Members of Congress fear the cost of fixing the Notch will undermine future Social Security financing. But the total cost of the Ford/Sanford Notch bill is $67.5 billion over ten years, only ten percent of the $650 billion projected increase in the Social Security Trust Funds over that time frame (Attachment G). If the Ford/Sanford Notch bill were enacted without change, Trust Fund assets at the turn of the century would be about $1.2 trillion, instead of $1.3 trillion projected under current law.

In another argument against action, the GAO report notes that "notch legislation would slow the system's attainment of minimum contingency reserve levels. . .(and) could put the system at additional risk should the economy experience a downturn (GAO, p. 69)." GAO refers to a Trust Fund reserve ratio between 85% and 145% recommended by Alicia Munnell and Lynn Blais (GAO, p. 68). The Ford/Sanford Notch bill achieves the 85% minimum level by 1993, only one year later than under current law.

Table 6.2 of the GAO report indicates that Trust Fund reserves totalled $67 billion at the end of 1987. This is $27 billion higher than was projected for 1987 at the time of the 1983 Social Security Amendments. At the beginning of 1988, the Trust Fund reserve ratio was 40% compared to the 24% projected for 1988 at the same time. If 24% was considered adequate in 1983, then 40% is more than adequate now. In fact, Trust Fund reserve ratios and assets would be higher than those projected in 1983 even after passage of H.R. 1917 which is more costly and less well targeted than the Ford/Sanford Notch bill.

GAO's report also raised questions about the impact of corrrecting the Notch on the long-term financing of Social Security, given the financing strategy adopted in the 1977 and 1983 Social Security Amendments. This financing strategy involves abandoning the traditional current cost financing (pay-as-you-go) to partially pre-fund the retirement benefits of the baby boom generation. It is now argued that Congress took this action to assure today's workers that there would be adequate financing for their retirement benefits.

Only now are some policymakers speaking out about the pitfalls of such a financing strategy. For example, accumulating such reserves will be illusory if Congress continues to run offsetting budget deficits. The National Committee agrees with the many policymakers including former Social Security chief actuary Robert Myers who now argue that Congress should return to current cost financing. Under current cost financing, Congress could solve the Notch and eventually reduce future payroll tax rates on today's workers.

The long-term cost of the Ford/Sanford Notch bill is only 0.07% of taxable payroll, which is one-half of one percent of the total cost of Social Security. While the National Committee doesn't believe it is necessary to raise additional revenue to finance a Notch correction, the long-term cost of the Ford/Sanford Notch bill is equivalent to less than one-tenth of the 1988 payroll tax rate increase. The minimal cost of correcting the Notch would seem to be a small price to pay to restore the public's perception of the system's fairness.

The most serious hurdle faced by a Notch solution is not the impact on the short and long-term financing of Social Security, however, but the political barrier of the Federal deficit. Despite protestations to the contrary, Congress continues to use Social Security surpluses to hide the deficit in the calculations used under Gramm-Rudman-Hollings. Reducing Social Security surpluses by paying for benefit corrections out of projected surpluses would "increase" the Federal deficit as calculated under Gramm-Rudman-Hollings.

The least serious cost barrier to Notch legislation is the additional expenditure and/or reallocation of resources within SSA needed to implement the legislation. GAO's report seems to imply that benefit corrections should be dictated by staffing goals rather than the other way around. The National Committee has testified several times against the arbitrary staffing reductions advocated by SSA, which could sabotage Congressional intent in regard to Social Security legislation. While feasibility of implementation should be a factor in designing a correction, it should not be a deterrent.

CONCLUSION

Although there are other proposals before the Congress, the National Committee supports the Ford/Sanford Notch bill because it solves the problem in a fair and reasonable manner. It is the least expensive measure yet introduced which eliminates the Notch for those born from 1917 through 1921 without creating another Notch for retirees in the following seven years through 1928.

On behalf of our five million members and supporters, I urge the Subcommittee to adopt the Ford/Sanford Notch bill and put an end to the disparity in benefits which has so troubled beneficiaries for nearly eleven years.

Thank you, Mr. Chairman.

ATTACHMENT A

NOTCH CASE HISTORIES OF MEMBERS OF THE NATIONAL COMMITTEE

Lucy and Joanna Tucci of Roselle Park, New Jersey:

Lucy was born May 29, 1917; her sister Joanna on April 24, 1915. Lucy retired at age 66, Joanna at age 67, but since Lucy had 17.5 percent more earnings over her lifetime she paid about 17.5 percent more Social Security taxes than her sister.

Even so, Lucy's 1988 monthly benefits of $495 are 15.4 percent ($90 a month) less than Joanna's $585 because, under the transition benefit formula, Lucy's earnings after age 61 could not be used in figuring her benefits.

Ruby Ford of Chillicothe, Texas

Mrs. Ruby Ford, born February 11, 1917, is a classic example of the effect of the flawed transition on benefits to Notch babies.

Had she been born six weeks earlier, her monthly Social Security check in 1988 would be $678. She, too, worked until age 65, but since she was born in 1917, her earnings after age 61 could not be counted. Her monthly check is only $546, a 24 percent loss.

This year it will cost her $1,584 for having been born 42 days late!

Mrs. Hazel Kale of Charlotte, North Carolina

Mrs. Kale was born just nine days late. She will lose $1,296 in 1988 because she was born January 9, 1917, rather than December 31, 1916.

Mrs. Kale worked for modest wages in physically demanding jobs for over thirty years. Although she could have retired at age 62 in 1979, she continued working and paying Social Security taxes until she retired at age 65 in 1982. Since her earnings after age 61 were not used to determine her monthly Social Security benefits, she receives 21.7 percent less than she would have received if she had been born in 1916.

Her monthly check is $501 -- $108 a month less than the $609 she would be receiving if she had been born just those few days earlier.

Agnes Page of Goose Creek, South Carolina

Mrs. Agnes Page was born March 27, 1917. She, too, could have retired at age 62. Instead, she remained on the job paying Social Security taxes until after her 65th birthday. But those last three years of earnings could not be taken into consideration under the transition formula used to compute her Social Security benefits.

So Mrs. Page's 1988 Social Security benefit check is $549 each month -- a 22.6 percent loss from the $674 she would be receiving had she been born in 1916. If Mrs. Page had been born in 1916, she could have retired at age 62, taken a 20 percent reduction, and would receive only $10 less than she currently gets after retiring at age 65.

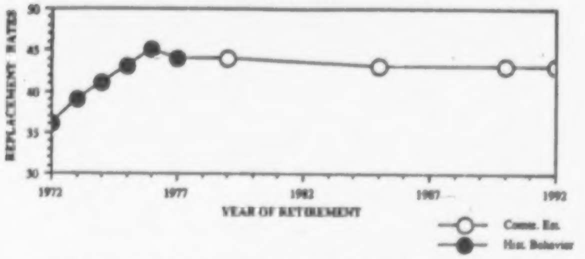
Alfred Carlson of Evansville, Indiana

Being born on October 19, 1917, instead of ten months earlier costs Alfred Carlson $224 a month in lost Social Security benefits -- a 25.7 percent reduction from what he would be receiving if he had been born in 1916.

In spite of health problems, Mr. Carlson chose not to retire at age 62, but continued in the work force until age 65. But those three additional years of earnings had no effect whatsoever on his benefits. Instead of receiving $859 a month in 1988 -- as he would be eligible to receive if he had reached age 65 a year earlier -- Alfred Carlson receives $635 a month.

So the Notch will cost Mr. Carlson $2,688 in 1988.

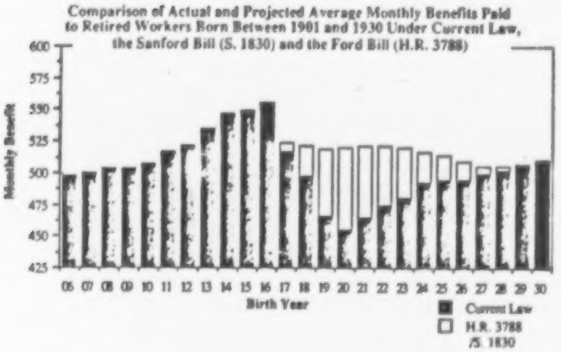
ATTACHMENT B



CONGRESSIONAL INTENT IN 1977
REPLACEMENT RATES FOR AN AVERAGE WORKER RETIRING AT AGE 62
UNDER THE 1977 SOCIAL SECURITY AMENDMENTS

SOURCE: PAGE 24, HOUSE REPORT NO. 702, PART 1, 95TH CONGRESS, 1ST SESSION

ATTACHMENT C

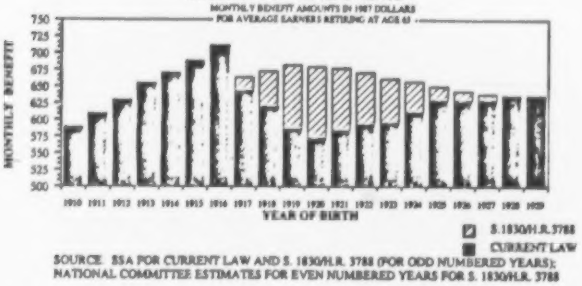


Comparison of Actual and Projected Average Monthly Benefits Paid to Retired Workers Born Between 1901 and 1930 Under Current Law, the Sanford Bill (S. 1830) and the Ford Bill (H.R. 3788)

Source: Social Security Administration for Current Law Benefits 1901 -1919; National Committee Staff Re-estimates of Social Security Administration Data for Current Law 1920-1921; National Committee Staff Estimates for Current Law 1922-1930 and Sanford/Ford Bill 1917-1929.

Prepared by the National Committee to Preserve Social Security and Medicare (National Committee), Washington, D.C. (202) 822-9459, 1/21/88

ATTACHMENT D

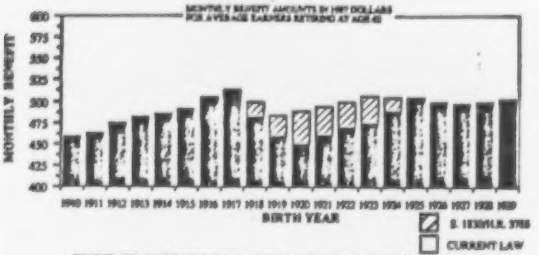


AGE 65
BENEFITS UNDER CURRENT LAW AND PROJECTED UNDER S. 1830/H.R. 3788 VERSUS BENEFITS EXPECTED UNDER THE 1977 AMENDMENTS

SOURCE: SSA FOR CURRENT LAW AND S. 1830/H.R. 3788 (FOR ODD NUMBERED YEARS); NATIONAL COMMITTEE ESTIMATES FOR EVEN NUMBERED YEARS FOR S. 1830/H.R. 3788

ATTACHMENT E

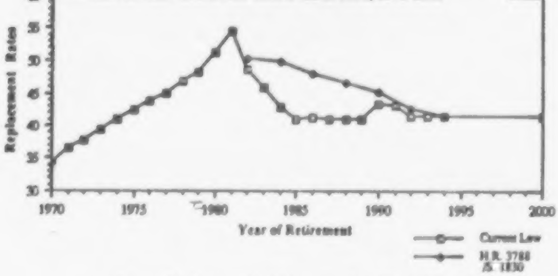
AGE 62
BENEFITS UNDER CURRENT LAW AND PROJECTED UNDER S. 1830/H.R. 3788 VERSUS BENEFITS EXPECTED UNDER THE 1977 AMENDMENTS



SOURCE: SSA FOR CURRENT LAW AND S. 1830/H.R. 3788 (FOR ODD NUMBERED YEARS); NATIONAL COMMITTEE ESTIMATES FOR EVEN NUMBERED YEARS FOR S. 1830/H.R. 3788

ATTACHMENT F

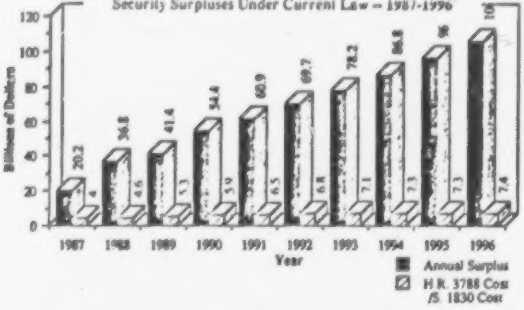
Replacement Rates for an Average Worker Retiring at Age 65 Under Current Law and Under H.R. 3788/S. 1830, 1970-2000



Source: GAO report, table 4.5 for current law, SSA for H.R. 3788

ATTACHMENT G

Comparison of Annual Costs of the Sanford and Ford Notch Bills, S. 1830 and H.R. 3788 respectively, with Annual Social Security Surpluses Under Current Law – 1987-1996



- For the first five years, the average annual cost of S. 1830 and H.R. 3788 is $5.2 billion, while annual surpluses average $42.7 billion.
- After five years, the average annual cost of the Sanford/Ford proposal stabilizes at about $7.3 billion while current law's annual surpluses are projected to increase by over 50 percent – from $69.7 billion in 1992 to $106.1 billion in 1996.
- Over ten years, the total cost of S. 1830 and H.R. 3788, including partial retroactive payments, equals only 10.4 percent of the $650 billion projected increase in the Social Security Trust Funds.

Note: Chart does not reflect $5.4 billion in costs for retroactive benefits of up to $1,000 per retired worker for 1979-1986.

SOURCE: Social Security Administration data arranged in table prepared by the National Committee to Preserve Social Security and Medicare, Washington, D.C. 20006, (202) 822-9459; 1/21/88

Chairman JACOBS. Mr. Levin.

Mr. LEVIN. Let me, if I might, ask Ms. McSteen on this high, middle, low income issue, on page 15 of your testimony, at the bottom, you say "but do not let the fact that higher income beneficiaries suffered the greatest losses hide the terrible impact of the notch on workers with low career earnings, a fact ignored in the narrative of the GAO report."

I do not know if you have a copy of the GAO report with you? You do?

Ms. MCSTEEN. Yes.

Mr. LEVIN. If you look at the chart on page 50, replacement rates, do you quarrel with the table there?

Ms. MCSTEEN. We do not have the printed record.

Mr. LEVIN. Staff is always ready.

Ms. MCSTEEN. Thank you.

Mr. LEVIN. It is on page 50. What it shows, in the footnote b is the projected replacement rates. And then the actual replacement rates at age 62 and at age 65. Where you talked about the terrible impact of the notch on workers with low career earnings, the table seems to show that in terms of replacement rates, that those for low income categories, the projections in the House report are met and, for those with average, they are essentially met. It is for the maximum earners where they are not.

Do you quarrel with that?

Ms. MCSTEEN. What we were referring to is that really the harsh effects of the failed transition on low wage earners is evident by the fact that without the special minimum computation, many low wage earners would get less than they did.

Actually, they fell back on the special minimum computation that was allowed under the Social Security formula because the special minimum computation was higher than either of the options of computations available to them; namely, the 1917-21 transition formula or the new permanent formula.

Mr. LEVIN. I would appreciate your spelling that out, because the tables seem to be rather clear, in terms of replacement rates, and somewhat contradict the arguments that the main brunt falls on low and middle income beneficiaries.

Let me ask you about your position, Ms. McSteen. I want to read to you from your 1984 testimony before the House Appropriations Subcommittee on Labor, Health, and Human Services, March 20, 1984.

You were asked a question about the notch by Mr. Young and you said:

> There has been considerable concern about the "notch" problem and a great deal of feeling that just one year should not make a difference in the amount of the benefit paid.
>
> As you know, this was part of the compromise in the 1977 amendments and it was considered to be extremely important to bring all of the indexed benefits back into line with the future benefit paid to individuals. For that reason, we have not endorsed legislation to remove the notch problem. There has been legislation introduced and, as you are aware, many people are interested but in all fairness to the system and the taxpayer, we feel that the notch was appropriate legislative action and certainly those individuals who fall in the notch will certainly receive an equitable amount.
>
> It is just that their wages have been indexed so that they would not receive, when they retired, more in retirement benefits than they had received in wages.

Mr. Young asks whether you are considering any alternatives to legislation that have been introduced on the notch issue. You say:

> At the present time, we are not. We feel fairly confident that if the legislators only recently determined that it was appropriate and that it was an essential part of the financial integrity of the program, that it should not be reversed now.

Ms. McSteen. Yes. As early as 1979, SSA had recognized that the legislation was producing results that were not anticipated, that is true. We also recognized that in 1984, but those statements were made soon after the 1983 amendments, and as you recall those amendments were for the purpose of addressing the soundness of the system. That bipartisan commission, and subsequently your legislation, did resolve the solvency issue far beyond the turn of the century.

So at that particular time, we were concerned about what financing might happen if the notch was enacted. Now certainly today the trust fund is what, $27 billion higher today than was anticipated by the 1983 amendments. It is that sort of turn in events that causes us to pause at this time and say that we believe that the notch, in some form or other, can be addressed without touching the solvency of the Social Security trust funds.

Mr. Levin. But your testimony was this, to just go back over it:

> We feel that the notch was appropriate legislative action and that certainly those individuals who fall in the notch will certainly receive an equitable amount.

That is not reference to the solvency of the fund. You, in 1984, you were then what, Acting Commissioner?

Ms. McSteen. Right.

Mr. Levin. You come before the Congress and say categorically that the notch, meaning the 1977 legislation, was appropriate legislative action.

Ms. McSteen. That was the position of the Social Security Administration and the Department at that time, and I was testifying on their behalf.

Mr. Levin. That was not your position?

Ms. McSteen. Well, it was the position of the organization.

Mr. Levin. You were the Acting Commissioner, were you not?

Ms. McSteen. That is right.

Mr. Levin. Were you testifying—were you saying something you didn't believe in?

Ms. McSteen. Not necessarily. Certainly everything that I had read, and I had not read and not been apprised of some of the comments, the action, and this committee's own reports from the 1977 legislation.

Mr. Levin. You testified, in 1984, without referring to the reports?

Ms. McSteen. The committee reports that the national committee has now taken a very close look at. That is why the national committee was looking intently at those reports. I do not recall reading those reports or being advised of those reports previously.

Mr. Levin. How long had you been Acting Commissioner?

Ms. McSteen. I was Acting Commissioner for some 2 years and about 8 months.

Mr. Levin. Through when?

Ms. McSteen. Through May of 1986.

Mr. **Levin**. At any time between your 1984 testimony and 1986, did you indicate a change in position?

Ms. **McSteen**. No.

Mr. **Levin**. So while you were with the Government, you were opposed to any action on the notch?

Ms. **McSteen**. Yes.

Mr. **Levin**. No further questions.

Chairman **Jacobs**. Mr. Archer.

Mr. **Archer**. I have listened intently to the comments of all the members of the panel and I want to thank each of you for taking your time and presenting your views to us. Obviously, they are diverse.

It seems to me the major objections, the only two objections, to the situation that exists today is that some say that Social Security benefits are too small, and I think that was the position of Ms. Jones for the Gray Panthers, and that there is an inequity between people in different cohorts, people born in different years.

And yet, I wonder if any of you can testify to this committee that any of the bills that are being considered today will eliminate either one of those two objections other than for a few people, the age bracket of which you might fall in? For those people who come later you are going to be faced with exactly the same objections that you come here to assert to us today.

Is it because you are only interested in your own age group, or is it truly because you are interested in increasing benefits that you think are too small, or in totally eliminating the equities between people who were born in different years?

Ms. **Jones**. I would like to refer to Mr. Daub's statement of what happened to the benefits.

Mr. **Archer**. I understand all that.

Ms. **Jones**. I have attached a table put out by the Select Committee on Aging, which also shows the sudden dip that he mentioned during those specific years. It makes a big difference.

All we are saying is make it a gradual reduction.

Mr. **Archer**. I understand that, Ms. Jones.

Ms. **Jones**. We are not saying go back to the 1972 formula.

Mr. **Archer**. I understand that.

Ms. **Jones**. And we are not saying that anybody later on should have to give up anything, just adjust the inequity.

Mr. **Archer**. Is it not true, though, that the benefits of the Daub bill, or the other two bills before this committee, will apply only to a limited number of people, and perhaps extend the phase-in. But the end result will be that people after that point will be exactly where you are complaining that you are today?

Ms. **Jones**. No, their benefits are not being figured the same way as ours were.

Mr. **Archer**. But none of these bills——

Ms. **Jones**. It was that business of not counting anything earned after the age of 61. That is the important provision that we are talking about, which drastically reduced the benefits.

Mr. **Archer**. The end result, though, as I see it is that regardless of which bill might be adopted, in another 5 to 8 or 10 years, there will be more people coming in here, maybe not with the name Ina Jones, maybe with the name Mary Smith, who can still complain at that point in time that the benefits are too low and that there is an inequity because they are not getting the benefit that your group, that you want to protect today, is getting.

Ms. **Jones**. For one thing, the people coming after us are getting more. That is for one thing. The dip goes down and back up again.

Do not forget the oldest people in this group are now 70 going onto 71. If you are going to do anything, please do it very soon. They are dying off, one by one. Do you want us to all die off, so you will not have to do anything?

The way the benefits go, those born in later years, the curve goes back up because they do not have that penalty of stopping at the age of 61.

Mr. **Johnston**. We have put back up a chart. As Ms. McSteen has said, there are two or three measures of looking at benefit equity. We have talked about replacement rates. That is one measure. Benefits for average retirees, which is what this chart depicts is another. And then benefits for the average earner, which is what you normally have displayed from the Social Security Administration, is a third measure.

What the chart on the right depicts is what we believe most people in this audience, or most beneficiaries in your district and everywhere else, will look at as equitable, and that is how much they receive in their check. The bill that Congressman Ford has introduced would flatten out the benefit levels so that the amount of money in people's checks would fill up that notch pothole, and it is a pothole with benefits going down and then up, rather than a line down and then a straight line across.

We believe that beneficiaries will see such a solution, which affects them in their pocketbook, as an equitable solution that does not produce a postnotch notch.

Mr. **Archer**. That is an interesting explanation, but clearly it relates to the gross dollars in the check, not to the percentage of replacement of wages during the lifetime or the experience of an individual. Clearly, we can only compare from year to year a percentage of wage replacement. Any other method would clearly distort the entire process because wages increase and conditions change.

I think Mr. Ball made a very good point in that regard.

Ms. **Jones**. Are you saying that we made less money than everybody else? Is that what you are saying? We did not make as much.

Mr. **Archer**. Ms. McSteen, I really have enjoyed working with you over the years, particularly when we were attempting to shore up the Social Security system and assure that it was stable and sound so that we could go forward telling the people of this country that it was not being jeopardized.

Your organization has made a big point of that over the years, of saying to millions of Americans, send me $10 and I will protect the safety of your Social Security system. And yet, here you are today, saying that we should give away money that is in the fund and you, I am sure, understand as a former Commissioner, that there are no surpluses in the fund. There may be temporary surpluses, but in the long term all generations deserve to be treated equitably and there will be no surpluses after the year 2050 or whatever that figure is. The surpluses begin to decline after the year 2015.

I am surprised that you would come here today and take the kind of position that you have taken, and particularly to represent an organization that has sent out mailings that, to say the least, are less than factual to the elderly of this country.

I, for example, would refer you back to your organization's comments in a press release of February of 1988 which says, in part, "We have fought for 4 years to win a fair hearing on this issue in the Senate." That means you started your campaign in 1984. And yet your newsletter, Saving Social Security, Volume 3, October of 1985, a year later, containg a member survey prioritizing the list of Social Security concerns from the membership and the notch is not any one of the six. In fact, there is no mention of the notch anywhere in your newsletter.

Now, if your organization was conducting such a fight for 4 years, why was that not an item in your newsletter in 1985?

Ms. McSteen. Mr. Archer you are going back certainly before my time with the organization, and I certainly have no recollection of that statement that you have just made about the issue. I do know that in the last year and-a-half that the membership has greatly challenged us and encouraged us to represent them in helping to overcome the notch issue. It is a major issue, as a result of a beneficiary survey among the membership, that we address the notch.

And the organization is trying to present that issue to this committee, to say that we do not take issue with the 1972 or 1977 benefit formula, but what we take exception to is the length of the transition period for the same reason, that a 10-year transition had been recommended previously.

Mr. Archer. That is certainly all well and good, but were you associated with this organization in February of this year?

Ms. McSteen. Yes.

Mr. Archer. That is when the press release was issued saying, we have fought for 4 years.

Ms. McSteen. I certainly am not trying to defend every word that has been printed by the organization. In fact, the organization has not been in existence for a great many years. All I am saying is that the notch is a major issue for this membership, and that is what we are trying to say to you.

Mr. Archer. You made a comment in your statement that this legislation, H.R. 3788, would end the disparity of benefits, if I understood you correctly, for people having the same earnings records over a lifetime. Do you really mean to tell future retirees that there will be no disparity in benefits?

Ms. McSteen. It depends upon what your definition of disparity of benefits is. Certainly, you and I know that benefits are computed based on an individual's working record and the date of birth. So it is impossible to predict what the future might be because we are all different in our lifestyles and our work and date of birth.

Mr. Archer. No, but for people who have the very same earnings record for a lifetime of work, are you telling this committee that H.R. 3788 will end all disparity of benefits at the time that H.R. 3788 has concluded its obligation?

Ms. **McSteen**. We are saying that there will be a gradual transition. There will always be some disparity as you and others have pointed out.

Mr. **Archer**. So basically you are saying, it will not end disparity of benefits?

Ms. **McSteen**. Not totally because every individual is separate and different.

Mr. **Archer**. Thank you very much.

Chairman **Jacobs**. Ms. McSteen, on that point about people similarly situated in their work experiences, is this chart based on people who have similar work experiences and who retired at the same time, at the same age?

Ms. **McSteen**. I will ask Mr. Johnston to respond. He is the technical expert on our charts.

Mr. **Johnston**. Mr. Jacobs, this chart is basically the conglomeration chart. The historical data is taken from table 71 of the Social Security Administration's annual statistical supplement. The figures following that are estimates that we have made that have been confirmed by the Social Security Administration which has adopted our methodology.

So it is, in effect, the average. We can put up for you the Social Security Administration's figures of age 62 and 65 retirees and how the Ford bill would affect those with average earnings.

Chairman **Jacobs**. With essentially identical work experiences?

Mr. **Johnston**. Yes, sir.

Chairman **Jacobs**. But the answer to the question is that this particular chart does not compare apples and apples in the sense of similar work experiences and retirement at the same age.

Mr. **Johnston**. No, it has different apples, sir. It compares the apple of somebody born in one year with the apple of somebody born in another.

Chairman **Jacobs**. Different apples.

Mr. **Johnston**. But not necessarily with the same work history.

Chairman **Jacobs**. You might get a good job in this administration. I think it is important——

Mr. **Johnston**. We do have charts for the comparison that you are talking about.

Chairman **Jacobs**. I know you do. But I think it is important that the record show that this does not compare similar people retiring at similar ages; is that correct?

Mr. **Johnston**. As I say, we could display those if you would like.

Chairman **Jacobs**. I know you could, but I mean just this one does not, right?

Mr. **Johnston**. No, it does not.

Chairman **Jacobs**. Okay, good. Are there any further questions?

Mr. **Levin**. Let me just ask very, very briefly to Mr. Lehrmann. The AARP, what is the size of the organization?

Mr. **Lehrmann**. Some 28 million members that are 50 years of age and over.

Mr. **Levin**. And what has been your experience with the notch issue?

Mr. **Lehrmann**. My personal experience with it extends back to 1983. I am one of the persons in that age cohort, and I have reviewed it annually at least, and more often than that as a member of the national legislative council. I came to the conclusion that I presented here back in 1983, and each year when I have reviewed it, along with the national committee which is about a 32 member committee, we have always come to the same conclusion. That to be a responsible organization, we have to stay with the fact that it is going to be a replacement rate issue. Not looking backwards, sir, at the dollar value, but comparing it in terms of replacement.

Mr. **Levin**. Has that position been stated to the membership?

Mr. **Lehrmann**. Yes.

Mr. **Levin**. And the reaction has been what?

Mr. **Lehrmann**. In terms of the feedback, we get some mixed feedback. Obviously, some of the people that are making presentations here may be members of ours. However, the general feeling that we get is that when you take the whole cohort that we represent, we see it as an intergenerational thing and there is not the strong impact that is presented here. This is a single, small group within our organization, and while we do get strong opinions from some of those people, we are representing that broad-based group and we think to deviate from that would cause problems, as was indicated here, for other age cohorts that we represent.

[The following was subsequently received:]

AARP

May 2, 1988

The Honorable Andy Jacobs
Subcommittee on Social Security
House of Representatives
Washington, D.C. 20515

Dear Representative Jacobs:

The American Association of Retired Persons (AARP) would like to clarify for the record the Association's views on the so-called Social Security "notch". Our position reflects the majority viewpoint of our membership as well as the views of our volunteer leadership.

Association policies are set by a 22 member volunteer Board of Directors. The 32 member National Legislative Council formulates the Association's legislative policy and then recommends it to the Board for final approval. Both groups include representatives from all regions of the country and count among their number several "notch babies."

The Association position on the notch has been considered by both groups on several occasions during the past few years. Each time they have reaffirmed the importance of protecting the fiscal integrity of the trust funds.

Moreover, neither the Board nor the National Legislative Council operate in a vacuum. The Association assesses membership views through periodic representative surveys and other means. For example, in our most recent survey (1988), we included a question on the notch. Members were asked to rate "removing the notch or phased in correction of an error in computing benefit levels which would increase benefits for those born between 1917 and 1921" as a policy priority. This item ranked fifth in overall importance well below other items that affected all beneficiaries such as maintaining cost-of-living adjustments. (See attached executive summary)

A nonbinding resolution restating the Association's original preference for phasing-in the "notch" correction was passed at our 1986 convention. The resolution also emphasized that AARP's primary concern should be the solvency of the Social Security system. Thus, any action threatening that solvency could not be supported.

American Association of Retired Persons 1909 K Street, N.W. Washington, D.C. 20049 (202) 872-4700
John T. Denning *President* Horace B. Deets *Acting Executive Director*

The Honorable Andy Jacobs
Page 2

The Association position on the "notch" -- that those born between 1917 and 1921 are not treated inequitably -- is also held by the majority of organizations representing older persons.

Sincerely,

Horace B. Deets

Horace B. Deets
Executive Director

As was the case with general health care, members feel information is lacking, especially in the area of the quality of available nursing home care.

Retirement Income

Inflation and the uncertain future of Social Security are the primary concerns in the retirement income area. Specific Social Security priorities include keeping COLAs, removing Social Security from the federal budget, and using a combination of Social Security and SSI to bring all older persons above the poverty line.

Removing the "notch" is moderately supported, but this support comes mostly from those directly affected. Higher taxes, either through lowering the threshold or increasing the taxable proportion of benefits, are opposed.

Increased pension portability and preventing the capture of "surplus" pension funds by the sponsoring company are the two biggest non-Social Security priorities.

Economic Issues

Waste/inefficiency in government and high defense spending are viewed as the primary culprits in the budget deficit, which is seen as having grown "much more serious" in recent years.

The current budget process is preferred to either a constitutional balanced budget ammendment or across-the-board cuts. The latter are seen as hurting those needing medical care, the elderly, and the poor the most, while being only of marginal benefit to the economy or the nation as a whole.

Should more revenue be necessary, luxury taxes and higher tax rates for upper income persons are reluctantly preferred, followed by higher tarrifs.

The trade deficit and unemployment/poverty were cited in open-ended responses as the biggest economic problems, other than the deficit, facing the nation as a whole.

High health care costs and inflation are seen as the biggest problems other than the deficit facing the elderly.

In the area of consumer issues, the health care industry received relatively low marks, while the banking industry fared relatively well in terms of service to older persons. All industries surveyed were seen as serving older persons less well than the public in general. Excessively high cost was seen as the biggest problem.

General support for various housing options was noted, but most support came for those options not requiring direct federal appropriation.

Mr. LEVIN. Thank you, Mr. Chairman.

Chairman JACOBS. Again, we thank the panel for your contribution.

I think now that we want to take the next two panels together, if there is no objection, because there are some people among you who have train schedules you are going to find difficult to meet. So if the others would not object, let us let them catch their trains.

We will try to fix it so you can be on time for the train. We cannot guarantee that the train will leave on time for you. Why do you not proceed, sir.

STATEMENT OF MAURICE F. QUINLAN, FIRST VICE PRESIDENT, PENNSYLVANIA NOTCH ORGANIZATION

Mr. QUINLAN. Mr. Chairman—I would appreciate very much if you people would let me go ahead. I am trying to catch the last train to Pittsburgh. If I do not get it I cannot go until tomorrow. May I go first?

Chairman JACOBS. Yes, you go. I just say, we cannot guarantee that train will be on time. We tried to get Mussolini on the phone, but he is not available.

Mr. QUINLAN. I appreciate that, sir. While I am at it, could I beg your indulgence and digress a little bit before I give it?

I have been sitting here all day, and all the opposition has never once admitted that the biggest thing here is this not allowing us to include our last 4 years of earnings if we worked to age 65. Now I am one of the maximum workers. I am not worried about the money. I will even sign and affidavit and give it back to you.

But I think this is a very serious thing that no other group was so treated; before or after, no one's earnings are disallowed, like ours are. This is the only group, that I am aware of, before or after or during the passing of the AIME amendment that got this thing throwed at them. We are disallowed our earnings for the best years of our life. And I worked in a research lab, and that is when I made the most money.

Now they keep saying, we are getting 48.7 percent. Maybe my calculations are crazy; I do not know. But I made like $30,000 a year. And only 40 percent of that is $12,000. I got $8,400. That is less than 30 percent any way you calculate it.

But forget the money problems. Let us go back and talk about my generation. Now I say this with pride, if it were not for us, none of us would be here. Do you realize that most of us were the guys that stopped Hitler. I was a rifleman in a rifle company. And if we had lost, you would not have had to worry about the Social Security system; you would be talking German or perhaps Japanese. So imagine how we feel.

We are saying, look, we do not want anything special. We just feel that, we at least, should get remembered. Everybody keeps worrying about the future. How about the past? Thank you.

Now to address my question.

Chairman JACOBS. I might say that, if I recall correctly, the taxpayers did keep faith however with the GI bill of rights, did they not?

Mr. QUINLAN. Pardon me?

Chairman **Jacobs**. I think the taxpayers have kept faith with the GI bill of rights, have they not?

Mr. **Quinlan**. Possibly, but I did not take advantage of any of that.

Chairman **Jacobs**. I am a combat disabled veteran myself——

Mr. **Quinlan**. Congratulations.

Chairman **Jacobs** [continuing]. And the only denial that has ever been given to me concerning my disability pension is a denial I gave to myself by waiving it while I serve in the Congress. So I think that while there is a grateful nation for those of us who served, I am not sure that that is precisely on the point of Social Security since there is an additional veterans program. But please proceed.

Mr. **Quinlan**. I realize that. And believe me, I did not take advantage of all those benefits that you speak of.

Mr. Chairman, the question is not whether or not one group of Social Security recipients are overpaid or another group within the system being underpaid. The question is the unfairness of the method being used to determine the benefits of the respective groups.

The AIME amendment, which resulted in the notch, arbitrarily disallowed any benefits that would have been credited to the group 1917 through 1921 in their 61st year. It also prohibited Social Security recipients from using the work years of age 62, 63, 64 and 65 in the calculation of their benefits. If they worked to age 65 or longer.

Conversely, FICA taxes were withheld from their earnings. Obviously, taxation without representation. It is a moral obligation on the part of Congress to find an equitable solution to this abominable situation, and at the very least refund FICA taxes for 1917 through 1921, those work years.

If Congress accepts this challenge, then the baby boomers need not be concerned about a 21st century notch. It is imperative that the committee permit an equitable bill for the solution of the notch problem to be released to the floor of the House of Representatives so that the issue can be voted either up or down.

Thank you kindly.

Chairman **Jacobs**. Thank you very much.

Anybody else need to catch a train or an airplane on the panel? [No response.]

Chairman **Jacobs**. Then why do we not resume the order in which people have been called. Mr. Eads would be next. Lafayette Eads. You cannot get any closer to Indiana Jones than Lafayette Eads.

STATEMENT OF LAFAYETTE GUS EADS, PRESIDENT, SOUTHERN INDIANA NOTCH ACTIVISTS, BLOOMINGTON, IND.

Mr. **Eads**. Honorable Chairman, committee members, Congressmen, fellow notch victims, ladies and gentlemen, I am Lafayette Gus Eads, a native Hoosier from Bloomington, Ind. I am honored to appear at this hearing by the invitation of fellow Hoosier, the Honorable Chairman Andy Jacobs of Indiana. I represent 300,000 notch victims in the great State of Indiana. I will devote some time to the notch victims who retire at age 65.

After going through the GAO report, I find the key words, indexing, replacement rate, and transition. The Social Security Administration has the authority to not index earnings earned after the age of 61 in the case of age 65 retirees. These wages are generally higher. By so doing, it is possible to give us a higher replacement rate and a lower benefit at the same time. This is supposed to create the illusion that you are being treated fairly in the transition period.

Here is a quote from the GAO report, page 104. I am sorry Mr. Archer is not here to hear this one.

Chairman Jacobs. He has probably stepped around the corner to sharpen his bow and arrow. Go ahead.

Mr. Eads [reading].

> In our view, with the benefit of at least 9 years hindsight, it appears that it might have been better to have allowed the inclusion of post-age 61 earnings in the transitional guarantee computation. It would have alleviated a portion of the problem.

I sincerely believe that had this been the case, this hearing may not have been necessary today.

The nonindexable earnings after age 61 caused almost of the 17 to 30 percent drop in benefits for the notch victims of 1917 through 1921.

At a hearing on the notch in the U.S. Senate a few weeks ago held by the Committee on Aging, a United States Senator, Alan Simpson of Wyoming made the following remark, "Notch babies are a bunch of greedy old people who are trying to bankrupt the Social Security trust fund."

The Senator, never having had to live on $400 or $500 a month is hardly qualified to make such a blasphemous remark. We think he owes an apology to every notch victim in the United States of America. He is dead wrong in the bankruptcy charge. Bankrupting the Social Security trust fund can only happen in the case of a great recession, or if in the next century, the deficit spending continues at the present rate with the trust fund tied into the federal budget.

In the years 2020 to 2032, the Federal Government will have to make good on some $11 or $12 trillion in Treasury notes. If the Federal deficit is too high, this will not be possible. A correction of the notch will have little or no effect on those trillions of dollars. The fate of the Social Security trust fund is squarely in the hands of Congress, including the Senator from Wyoming, and not in the hands of greedy old notch victims.

The solution is simple, remove the trust fund from the federal budget and deficit. We sincerely hope that Congress does not leave this legacy and potential crisis to its successors.

The GAO uses a few abbreviations in their report such as AARP, AIME. AARP stands for American Association for Retired People. From my point of view, it could be mistaken for AARPSS, or Americans Against Restoration of Parity in Social Security. I strongly advise anyone born in 1917 through 1928, or anyone who believes in Social Security parity, do not send your money to AARP. They use your money to lobby against equal benefits in Social Security. And that is a policy of the AARP leadership and not the membership.

AIME stands for average indexed monthly earnings. Simply put, it means, if it is not indexed as your earnings after age 61, you do not get credit for it.

I would like to submit that my benefits as figured at 1916 levels, and with my post-age 61 earnings indexed by the Social Security office in Bloomington, Indiana turned out to be $100 per month more than my present benefit, or over $5,000 since February 1984.

We would endorse the Ford bill, H.R. 3788, which would partially pay back losses suffered from 1979 until now, and it would only use one-tenth of the reserves projected for 1996, the projection being over $665 billion.

I am a 5-year veteran of World War II, U.S. Army Signal Corps, honorably discharged as a sergeant. The majority of notch victims have served you well, as did I.

I think the GAO report does not cover the notch inequity completely. However, it does prove that a problem exists and should be corrected at once. Nine years of frustrations are more than enough. Thank you and good day.

Chairman Jacobs. Thank you, Mr. Eads. Now Ms. Fishback, please.

STATEMENT OF HILDA B. FISHBACK, SILVER SPRING, MD.

Ms. Fishback. Mr. Chairman and members of the committee, I am Hilda Fishback of Silver Spring, Md. I am testifying today in three capacities: as a so-called notch baby, also as a mother and a grandmother.

This controversy is not over an injustice to those of us born between 1917 and 1921. Rather, it is over the question of whether in an effort to even out minor discrepancies in compensation, the Congress will set a precedent of ratcheting up benefits which could jeopardize the system as a whole.

I cannot in good conscience support a short term windfall for myself, my husband, and our contemporaries because the creation of such a notch windfall would endanger the health of the Social Security system upon which my children and my grandchildren must someday rely.

I am also concerned that if Social Security funds are to be used for the purpose of providing more to the notch population, that the very much needed benefits to persons with disabilities receiving Social Security disability insurance might be jeopardized, since there is just so much money to go around.

I do not want my generation to be known as a generation of greed. We care about our progeny and do not wish to hurt them so that we may receive a little bit more. It is bad enough that they will be burdened with the enormous federal deficit which has been run up in this decade. We should not compound the problem by trying to remedy the inequity of a windfall for the 1912 through 1916 birth group by creating another larger windfall, and thereby placing the Social Security system in a deficit position.

Thank you for allowing me to testify on this important matter.

Chairman Jacobs. Thank you, Ms. Fishback.

Mr. Purcell.

STATEMENT OF ANTHONY PURCELL, SR., PRESIDENT, NOTCH BABIES ORGANIZATION OF PENNSYLVANIA

Mr. PURCELL. Mr. Chairman, my name is Tony Purcell, and I am president of the Notch Babies Organization of Pennsylvania; an independent organization of about 60,000 notch victims.

This is the 10th time since 1984 I have come to D.C. to seek a solution to the notch problem. On five occasions, our organization obtained permission to demonstrate with thousands of other notch victims here at the Capitol or across from the White House. I am joined today by Sidney Ulan and Gertrude Warwick of Wallingford, Pa.—a brother and sister who have almost a $200 a month notch gap—and a group of victims from our organization who came at their own expense.

We are an independent grassroots group that is part of a national coalition representing millions of notch victims in scores of notch groups from all sections of the country, including your own States of Indiana, Illinois, Michigan, Nebraska, Florida, and Texas. We are proud to be affiliated with the National Committee to Preserve Social Security and Medicare chaired by James Roosevelt; the largest senior organization to support an end to the notch injustice.

Mr. Chairman, the notch is real. Just look at Sidney and Gertrude and you will see that Sidney's Social Security benefit is hundreds of dollars a month less than Gertrude's, even though they were partners in the same family business. Why does Sidney receive so much less than Gertrude? Because he was born in 1920, a notch year, and she was born in 1915 before the notch began.

Mr. Chairman, I just cannot believe that your committee really wanted to inflict this kind of obvious injustice on millions of seniors.

We have waited too long for this GAO report. But we are disappointed.

First, we are disappointed because two years ago Chairman Jim Jones met with us and promised that we would be contacted to provide information to help determine the impact of the notch. Nobody ever contacted us.

So again, we are disappointed that the General Accounting report says that your committee got the 5 to 10 percent reduction you wanted, when people like Sidney and many others I know are getting 20 to 30 percent less than the people they worked with.

Again, we are disappointed that the report confuses the issue by talking about replacement rates instead of hundreds of dollars. Each notch victim loses for every one point difference in the replacement rates.

I could not help feeling that this report seemed to be designed to protect Congress from accepting responsibility for the fact that the notch exists because your committee's 1977 amendments failed.

Mr. Chairman, I receive a good union pension and I live a fairly comfortable retirement. Myself, I would be glad to settle this thing for $1 a month if I was the only one hurt by the notch. But I am in this fight to the end because of people like Mr. and Mrs. John Cloney of Wilkensburg, Pa., who wrote to me the following letter:

DEAR SIR, My husband is one of the notch babies. His birthday is December 3, 1919. I hope you are successful because we could sure use the money as we both need medicine and our clothes are worn out. So God bless you in your efforts and thank you. Sincerely, Mr. and Mrs. BEA CLONEY.

Mr. Chairman, the Cloneys get about $500 a month from Social Security, and that is all they have to live on. They really need the $45 or $50 a month that H.R. 3788 might give them.

I have to tell you, I am sick and tired of hearing about the greedy notch babies. I have 7 children and 19 grandchildren. I would not support any proposal that I thought would hurt them. I want a sound Social Security system that will be there for my grandchildren just as it should be for the millions of notch victims today.

With all the surpluses piling up in Social Security, you ought to be looking at cutting my children's tax rates and not cutting our benefits. But if you think you need more money to pay for the notch, then let us get it from the people who make more than $45,000 a year and do not pay Social Security tax on their earnings.

Notch victims in Pennsylvania and across the country commend you for holding this important hearing. We look to you for some relief from the notch which has severely affected the standard of living of millions of senior citizens.

Finally, I would like to mention that Sid Ulan is a real World War II hero. I have his discharge paper in front of me here. He won seven Battle Stars for his service in Europe, Africa, Middle East. And he won a Presidential Unit Citation, and Air Medal with two oak leaf clusters. Mr. Chairman, I would hope you would allow this war hero to make a short statement.

Thank you for the opportunity to let me testify today. Thank you.

Chairman JACOBS. Thank you, sir.

Mr. Dezarn.

STATEMENT OF JAMES DEZARN, PRESIDENT, UNITED SENIOR ACTION OF INDIANA

Mr. DEZARN. Chairman Jacobs, subcommittee members, my name is James Dezarn. I am president of the United Senior Action of Indiana, a statewide senior organization in Indiana with membership of 150 senior citizen clubs and about 9,000 dues paying members.

I appreciate the opportunity to testify on this important issue of the Social Security notch. I am not an expert on the complex technical factors involved in this issue, and I am not here to analyze or support any particular proposal.

But I do want to suggest some principles for the consideration of this subcommittee. And I want to express the viewpoint of many seniors whose concerns about the Social Security system are far broader than the discrepancies that may have been created unintentionally between the benefits of one group of retirees and the benefits of another.

First, I want to compliment the GAO for their report. It provides a kind of dispassionate analysis of the issue that is desperately needed.

It seems clear that the problem of the notch lies not in any group of retirees having their benefits cut below levels ever intended for Social Security to provide. Rather, the problem stems from retirees receiving higher benefits than intended because of the flaw in the 1972 amendments that introduced the automatic cost-of-living adjustment.

The benefit discrepancies that have stimulated complaints would be the same whether by some getting too much or some getting too little. But the cause is crucial to any responsible reaction to those discrepancies. Let me assure you that if we believed that these discrepancies were caused by the benefits of the notch babies being cut below intended levels, I would be accompanied here today by a busload of United Senior Action members and we would be giving the chairman fits back home.

But that is not the case. Notch babies are generally getting higher benefits as measured by the replacement rate than retirees before the flawed 1972 amendments, and higher benefits than those following the notch years.

Replacement rate does seem to be the fairest way to compare benefits, and this measure points clearly to the fact that the problem lies in some getting too much and not in some getting too little.

Certainly, discrepancies in benefit levels are bound to leave some people feeling cheated. But these feelings have been heightened and exploited by oversimplified and misleading discussions of the notch issue.

Despite some of the reactions generated by the oversimplified and misleading discussions, I think that it is important for the subcommittee and Congress as a whole to understand that most seniors are deeply concerned about the kind of retirement that our grandchildren and our great grandchildren will face. We want a Social Security system that will not only help provide a decent standard of living for today's retirees, but will also do the same for the future retirees.

It seems to me that at its most basic level, the discrepancies caused by the 1972 amendments and the 1977 corrections can be addressed in one, or a combination of three approaches. First, lower the benefits of those receiving more than intended; or increase the benefits of those receiving less benefits than the 1981 retirees; or accept the discrepancies as necessary to correct the 1972 amended flaws.

In general terms, we believe that lowering the benefits for those who are getting too much would break a commitment, even though a flawed commitment, to those people and we support Congress' refusal to do that.

We believe to increase the benefits of others to eliminate or reduce the discrepancies would simply be building more unfairness into the system, unless we were to raise everyone's replacement rate to the near 55 percent rate reached by the 1981 average earner retirees, and that is certainly not feasible.

So finally, we believe that an unfair discrepancy occurred and must remain in some form if we are to eventually restore fairness to the system. We believe that as seniors gain understanding of the cause of the notch discrepancies and understand the options available, acceptance of the current course will grow.

More important, we urge you not to sacrifice support of the Social Security system by working people, or the long term viability of Social Security system for future generations in order to fix past errors or address misconceptions about the problem.

Thank you for inviting me to testify today and for taking the time to hear my views.

I have sat here today and I have listened to a lot of talk. They said we should correct the problem. What about the people that got too much money back in 1917, 1915, 1914, 1912? The Congress was very generous with those people. They hated to take away the Social Security that they were getting, and they let them keep it.

So now we are drawing no more than we were intended to. I am a notch baby. I am 70 years old. I am not complaining. And for our system to work, we have to sit back and take a long range look at it.

Thank you very much.

Chairman **Jacobs**. Thank you, Mr. Dezarn.

Mr. Cooper.

STATEMENT OF J. DARYL COOPER, PRESIDENT, THE COMMITTEE TO CORRECT INEQUITIES IN SOCIAL SECURITY AND MEDICARE, INC.

Mr. **Cooper**. Thank you, Congressman Jacobs, members of the subcommittee. I want to especially thank you for inviting me to testify at this hearing today so that we could possibly help arrive at legislation which would correct this inequity. I also want to thank Congressman Daub and Congressman Lightfoot, who are unable to be here at this time, and their staff for their helpfulness in bringing me here. I certainly appreciate their efforts.

This hearing is a real positive step toward correction of the notch because this committee has jurisdiction over the Social Security program. And as members of the committee, you are the principal people who can move legislation forward on the notch.

My name is Daryl Cooper. I live in Council Bluffs, Iowa. I am president of the Committee to Correct Inequities in Social Security and Medicare, Inc. Our organization represents and coordinates the efforts of notch victims from most of the Midwestern States including Nebraska, Missouri, Kansas, Oklahoma, Minnesota, Texas, Illinois, Indiana, Iowa, and several others. We have over 75,000 names on our computer listing. These individuals are furnished information by mail or by telephone as deemed necessary.

Our organization became active in August of 1983, and has held informational meetings through the Midwest in an effort to bring the facts regarding the notch to the people and to enlist their support in getting legislation passed to correct this error.

Notch victims throughout the United States, estimated to be about 8 to 11 million individuals, are being deprived of Social Security benefits by an error in the law. Due to a short term financing problem and the need to stabilize Social Security benefit payments, Congress changed the law in 1977. It was their intent, per Congressman Rostenkowski, per Congressman Gephardt, and former

Congressman Jim Jones, Congressman J.J. Pickle, and others, to reduce overall benefits for those persons born after 1916 by 5 to 7 percent. I have written statements from each one to verify that.

Evidence proves this reduction was more than double their intent. This error has caused additional hardships for a number of elderly Americans, many of whom could use this income to pay their living expenses today. The following example of an elderly person who is affected by the loss of income caused by the notch demonstrates this point.

Mr. Irma Orr born in 1921 lives in subsidized housing in Council Bluffs, Iowa and suffers the same plight as thousands of other elderly Americans who have had their Social Security benefits reduced by the notch. She receives $427 a month from Social Security, which is her only source of livelihood. From this she must pay rent, medicine, groceries, utilities, doctor bills, clothing and lots of other miscellaneous expenses.

Mrs. Orr has an outstanding doctor bill of approximately $920 which she is trying to pay off a little each month. This lady needs surgery but cannot afford to pay the amount charged over and above the Medicare allowance. She has no supplemental insurance. She feels if she could receive the amount her benefits are reduced by the notch, she could also purchase the new eyeglasses she needs and which are long overdue.

Lots of reasons have been supplied as to why this benefit reduction was so great, such as inflation and the change in economic conditions which had been projected. Congressman Edward Roybal stated on September 24th, 1984 at a hearing in Levittown, Pa.,

> Double-digit inflation is not the major reason for the up to $1300 a year difference in benefits for 65 year-olds retiring days apart. The primary reason is that the post-age 61 earnings of people born after 1916 are excluded in the computation of benefits for the notch years. When benefit credit for earnings after age 61 are eliminated, your lifetime earnings record can be reduced by more than 25 percent.

However, whatever the reason for the notch, it is our organization's view that Congress needs to fix it.

At this point I would like to discuss the General Accounting Office report on the notch. We would like to commend the General Accounting Office for the study it submitted to the notch inequity. Lots of time and effort were expended on it. We note that several comparisons of age 62 benefits are used in this report. We believe considerable confusion could be eliminated if all calculations were based on retirement at age 65. Social Security has a reduction schedule for early retirement which has proved quite satisfactory for a good many years.

We observe in the GAO report that considerable consideration was given to a person's income, assets and health status in addition to his Social Security benefits. If these are to be studied, perhaps the why and how are of importance.

For example, a person with a greater income may have been willing to work to receive greater remuneration. Or he may not have needed all the luxuries available to him during his productive years, and therefore managed to accumulate more assets. This beneficiary may also have been willing to refrain from lifestyles that was detrimental to his health. I do not wish to imply that these could be circumstances in all cases, but it must be considered. Are we to be penalized now for working, accumulating assets, and living a healthy life?

Social Security is not a welfare program, but a forced contributory retirement plan paid for by employer and employee and we are supposed to receive benefits based on those contributions.

I would like to make a couple of short statements, if I might, sir, regarding Dr. Robert Myers. Dr. Robert Myers, Chief Actuary of the Social Security Administration from 1947 to 1970 testified before the Ways and Means Committee in 1977 that the notch could have been prevented. However, the Social Security Administration said they could not handle correction of the problem in 1977.

I believe the GAO report referred to three or four other cases where it was impossible for the Social Security Administration to be able to handle correction of the notch. I would like to suggest, if this is an impossibility for them to handle, perhaps they could refer that to private enterprise. I believe they have the capabilities for administering such a program.

My next comment would be in the Dear Abby column in 1983 quoted by Dr. Myers as saying, "when the notch year procedure was suggested in Congress, he argued against it saying all retirees should receive equal treatment." It appears that approximately 200 House Members and 25 Senators are in agreement as they have cosponsored legislation to correct this error.

I presented in my record a number of resolutions from different states, from different organizations that I would like to—I would like to ask that my complete testimony be entered in the Congressional Record, sir.

In conclusion, Mr. Chairman and members of the subcommittee, we urge you and your committee to bring forth a favorable recommendation to the Ways and Means Committee and to recommend they bring this legislation on the floor for immediate vote by the full House. I thank you.

I would further be glad to answer—if there are any questions, I would certainly be happy to answer them for you.

[The statement of J. Daryl Cooper follows:]

TESTIMONY FROM MR. J. DARYL COOPER - PRESIDENT
THE COMMITTEE TO CORRECT INEQUITIES IN SOCIAL SECURITY AND MEDICARE INC.
COUNCIL BLUFFS, IOWA
HOUSE WAYS AND MEANS SUBCOMMITTEE ON SOCIAL SECURITY HEARING
APRIL 14, 1988

Mr. Chairman, Members of the Subcommittee, I want to thank you for inviting me to testify at this hearing in an effort to pass legislation to eliminate the inequity of the Social Security Notch. I especially want to thank Congressman Lightfoot and Congressman Daub for making it possible for me to be present; their cooperation and that of their staffs is much appreciated.

This hearing is a very positive step toward resolving this inequity, and Congressman Jacobs should be commended for taking the first step in this effort. We are especially delighted since a favorable recommendation from this Committee is a must.

My name is Daryl Cooper, and I reside in Council Bluffs, Iowa. I am President of the Committee to Correct Inequities in Social Security and Medicare, Inc. We are an Iowa corporation working to educate and coordinate the efforts of Notch victims from most of the Midwestern States, including Missouri, Kansas, Oklahoma, Texas, Nebraska, Minnesota, Illinois, Iowa, Indiana, and several others. Our computer mailing list contains the names of over 75,000 people. These individuals are furnished information as deemed necessary. This maybe by mail or telephone depending on the urgency. Our latest mailer was sent to 55,000 Iowans prior to the Iowa Caucus on February 8th to inform them of the Presidential candidates most supportive of our platform resolutions, which include Notch correction.

Our group has organized several bus trips to Washington, D.C., to take part in rallies in an effort to receive recognition concerning the Notch problem and to solicit the support of our elected officials.

The Midwest Notch Organization became active in August of 1983, shortly after some members applied for their Social Security benefits and were appalled to learn they were much less than expected. In attempting to find out why, we were advised by a Social Security employee that "that is what the computer says you are to receive and that's what you get". Being unwilling to accept such an answer we started studying and researching the Social Security laws and learned of the change in the law in 1977, which reduced our benefits. We also learned of the 8 to 11 million Notch victims throughout the United States who were being deprived Social Security benefits because of an error in the 1977 law.

The 1977 law change was necessary, so we are advised, due to a short term financing problem, which has long since been corrected, and the need to stabilize future Social Security benefit payments. This law was to reduce overall benefits for future retirees by 5 to 7 percent per Congressman Dan Rostenkoski, Congressman Dick Gephardt, former Congressman James Jones, Congressman J.J. Pickle and others. Evidence as reported on page 13 of the General Accounting Office report shows that this reduction was more than double the intent. This error has caused additional hardships for a number of elderly Americans. Two such examples of elderly persons who are affected by this loss of income caused by the Notch and their records are included below.

Mr. Florence Legge who lives in Council Bluffs, Iowa, in subsidized housing receives a Social Security benefit each month of $543. From this she must pay the following:

Rent	$136.00
Supplemental Health Insurance Premium	83.00
Prescription Drugs	45.00
Groceries	100.00
Telephone (necessity due to health)	15.00
Health Insurance Deductible	26.50
Clothes, personal items, Doctor bills not covered by Deductible	

	$405.50

Mrs. Legge has approximately $100 per month left to cover all other expenses such as travel to the doctor, to the grocery store, and to the drug store. She needs dental work badly, which is estimated to cost $320. This person has difficulty reading as her glasses have not been replaced in over five years. She does not feel she has the $170 available to pay for the eye exam and new glasses.

Mr. Irma Orr lives in subsidized housing in Council Bluffs, Iowa, and suffers the same plight as thousands of other elderly Americans who have had their Social Security benefits reduced by a flaw in the law, the Notch. She receives $427 monthly from Social Security, which is her only source of livelihood. From this she must try to pay:

Rent	$111.00
Medicine	28.00
Groceries	100.00
Doctor Bills	45.00
Telephone (Doctor Recommended)	15.00
Clothes, shoes & other Incidentals	15.00

	$314.00

Mrs. Orr has an unpaid doctor bill of approximately $920, which she is trying to pay off a little each month. This lady needs surgery but cannot afford to pay the amount charged over and above the Medicare allowance. She has no supplemental insurance. She feels that if she could receive the amount by which her benefits were reduced by the Notch she could also purchase the new eye glasses, which she needs and which are long overdue.

The General Accounting Office stated the increased inflation of the 70's and 80's contributed greatly to the diminished effectiveness of the transition period. Another reason stated by Congressman Roybal at a hearing in Levittown, Pennsylvania on September 24, 1984, that the "double-digit inflation is not the major reason for the up to $1300 a year difference in benefits for 65 year-olds retiring only days apart. The primary reason is that the post-age 61 earnings of people born after 1916 are excluded in the computation of benefits for the notch years. When benefit credit for earnings after age 61 are eliminated, your lifetime annual earnings record can show a 25 percent or more reduction". Whatever the reason for the Notch, it is our organization's view that Congress needs to fix it.

We would like to commend the General Accounting Office (GAO) for the study they submitted on the Notch Inequity. The detailed charts and graphs are clear and the balance of the report indicates a lot of time and effort were expended. We note that several comparisons of age 62 benefits are used in this report. We would like to suggest that considerable confusion could be eliminated if all calculations were based on retirement at age 65. Social Security Administration has a reduction schedule for early retirement which has proved quite satisfactory for a good many years and we would not recommend that this be changed.

We, observe in the GAO report that considerable consideration was given to a person's income, assets and health status in addition to his Social Security benefits. We fail to understand why these factors should be considered, but if they are, then perhaps the why and how for their existence are of importance. For example, a person with a large income may have been willing to work to receive greater renumeration. He may not have needed all the luxuries available during his productive years, therefore, he managed to accumulate more assets. This beneficiary may also have been willing to refrain from a lifestyle that was detrimental to his health. I do not wish to imply these are the circumstances in all cases, but they must be considered. ARE WE TO BE PENALIZED FOR WORKING, ACCUMULATING ASSETS AND LIVING A HEALTHY LIFE?

The GAO report also indicates that additional taxes would be necessary if benefits are to increased for Notch victims or that benefits would need to be reduced for future retirees. Notch victims willingly contributed more taxes to pay increased benefits to pre-1917 beneficiaries and some are still paying those greater taxes. We must not be criticized now for expecting fair and equal treatment.

Social Security is not a welfare program but a forced contributory retirement plan paid for by FICA taxes imposed on the employer and employee, you are supposed to receive benefits based on your contribution, unless, I note, you are a Notch victim. This plan has worked well for many years, let's not change this concept now.

Finally, considerable emphasis has been placed on the cost of correcting the inequity of the Notch by opponents. The question arises of who will pay for this additional expense. Health and Human Services Secretary, Otis Bowen states the Social Security Trust Fund reserves shall peak in about the year 2030 at approximately $13 trillion. It was also stated by Social Security Commissioner Dorcas Hardy recently on a television program with Congressman Lightfoot that this fund would reach that amount by 2015. It appears the trust fund will not be depleted or the future of Social Security jeopardized if the $84 billion cost of the Roybal Bill, H.R. 1917, or the $67 billion needed for the Sanford Bill, S. 1830, or the Ford Bill, H.R. 3788, are removed from this fund to right an 11-year old mistake.

Certain members of the press and others have labeled Notch victims as being "greedy". Per Dr. Jack Carlson, former executive director of the American Association of Retired Persons - 6 percent of the elderly are financially solvent, and 20 percent are living below or just barely above the poverty level. If it is greedy to want food on the table for your family, then I guess we are greedy.

Dr. Robert Myers, Chief Actuary of the Social Security Administration from 1947 - 1970 testified before the Ways and Means Committee in 1977 that Notch could have been prevented. The Social Security Administration said they could not handle correction of the problem in 1977. The GAO report again indicates that correction of the Notch might be difficult for the agency to administer because of current and future staff reductions. May I ask you to consider if it is more important to reduce the Social Security staff or to correct the injustice of the Notch which has affected the lives of approximately 15 million senior citizens? If it is impossible for the Social Security Administration to handle this important correction, perhaps we should look to private enterprise to furnish this service.

"Dear Abby" in her column in 1983 quoted Dr. Myers as saying, "when the Notch year procedure was suggested in Congress, he argued against it, saying all retirees should receive equal treatment". It appears approximately 200 House Members and 25 Senators are in agreement with Dr. Myers as they have co-sponsored legislation to correct this error.

The American Association of Retired Persons passed a resolution at their National Convention in California in 1986 supporting a 10 year conversion period for the Notch. A survey conducted for this organization in 1987 by Dr. Robert H. Prisuta stated that 62 percent of those responding to this survey placed a #2 priority on correcting the Social Security Notch. The importance of this endeavor was surpassed only by the request for separating Social Security from the unified federal budget, including all deficit calculations for attaining the Gramm-Rudman-Hollings target.

We further present for the record resolutions as passed by several state, city and local governing bodies along with those of the Veterans of Foreign Wars, the American Legion, Gray Panthers and some church organizations.

Congressman Jacobs, the Social Security Notch is not a partisan issue but one that must have the support of both parties of the Senate and House of Representatives to arrive at a fair and equitable solution. We believe sufficient study of this issue has taken place and we urge you and your Committee to bring forth a favorable recommendation to the House Ways and Means Committee and to recommend that the legislation be brought to the floor for immediate vote and passage by the House of Representatives. This action would put this issue to rest.

Thank you for your consideration.

DUPLICATE
TRIPLICATE
QUADRUPLICATE

The American Legion

DEPARTMENT OF ILLINOIS
P. O. BOX 2910 · BLOOMINGTON, ILLINOIS 61701
ANNUAL DEPARTMENT CONVENTION

Resolution No. 43 Referred to Committee on ______ Date ______

Subject: Support HR 1917 & S 1060 so that the inequities in Social Security laws be corrected

PLEASE TYPE — Return ALL four copies to Department Headquarters.

IMPORTANT: Must be registered with Department Adjutant by 9:00 a.m.
21 days prior to the Department Convention

(DO NOT FILL IN ABOVE THIS LINE)

RESOLUTION

Whereas: Changes were made in the Social Security Laws in 1977 which caused initial benefits for persons born between January 1, 1917 and December 31, 1921 to be lower than for persons with similar earnings born prior to 1917. This reduction can be as great as $175.00 per month.

Whereas: This change has proven to be an overaction by Congress. While the reduction in benefits was intended to be 5% to 7%, in actuality they have resulted in cuts of from 13% to 30%.

Whereas: Congressmen have given bankruptcy of the Social Security funds as a reason for creating this inequity and their failure to correct it. For the period of 1985-89, Social Security and Medicare will show a surplus of $126 billion. There was a $32.4 billion surplus in 1985. Correction of the "notch" would still leave a surplus of $82.4 billion.

Whereas: Social Security should not be included as a budget item during legislative talks. Social Security does not contribute to the federal deficit. It is a self supporting program with income exceeding disbursements. Social Security is not a welfare program. It is insurance paid by employee and employer and designated as FICA on payroll tax forms (Federal Insurance Contribution Act).

Whereas: People affected by the "notch" are the first recipients who have contributed from every payment. It is a gross injustice that those who have paid the most are the ones to receive the first reduction in benefits.

Whereas: World War II and Korean veterans are nearly totally embraced by this inequity. This mandates the American Legion to extend their efforts to correct this flagrant act of age discrimination.

Whereas: There are now two bills in Congress to eliminate this problem. H.R. 1917 is sponsored by the chairman of the Select Committee on Aging. S. 1060 is sponsored by Senator Alphonse M. D'Amato of New York State.

Now Therefore, be it resolved that this matter be brought before the Illinois Department Convention. This Resolution sponsored by the Department of Illinois should be presented at the National Convention mandating the National Legislative branch to both back and lobby for H.R. 1917 and S. 1060 and regularly submit progress to members by articles in the American Legion Magazine and other bulletins and media as they see fit.

and be it further resolved, by the American Legion, Department of Illinois, that HR 1917 & S 1060 be supparted for passage and enactment into law, so that the inequities in the Social Security laws be corrected.

FOR CONVENTION COMMITTEE USE

Approved ______ Rejected ______
Approved with Amendments ______
Consolidated with ______
Referred to Standing Commission or Committee on ______
Other Action ______
Signature ______
Convention Committee Chairman

This is to certify that the above resolution was adopted by our Post but with indicated Department action substituted for the local resolving clause

Submitted by Kankakee American Legion
Post No. 85
______
Commander
______
Adjutant

(Below is to be filled in when resolution is submitted from another authorized source.)

______
Commission or Committee Chairman
______

NOTE: SEE INSTRUCTIONS ON REVERSE SIDE OF THIS [illegible]

RESOLUTION 86-93

VOTE: Voice Vote 7-0

DATE: August 25, 1986

RESOLUTION 86-93
OF THE CITY COUNCIL OF THE
CITY OF DEKALB, ILLINOIS,
SUPPORTING ELIMINATION OF
THE INEQUITY IN THE SOCIAL
SECURITY SYSTEM FOR THOSE
PERSONS BORN BETWEEN JANUARY
1, 1917, AND DECEMBER 31,
1921, (NOTCH BABIES).

WHEREAS, changes were made in the Social Security Laws in 1977, which caused the initial benefits for persons born between January 1, 1917, and December 31, 1921, to be somewhat lower than for workers with similar earnings history born prior to 1917. The amount of this reduction of benefits can be as great as $175.00 per month, resulting in gross inequity to persons born in the "Notch" years; and,

WHEREAS, there are no special transitional advantages for "Notch" babies. The two methods of figuring the benefits do not allow an advantage for "Notch" people. Under the transition formula "Notch" People lost one to four years of salary credit in figuring initial retirement benefits; and,

WHEREAS, "Notch" inequity is a costly reality for those persons who are receiving up to 30% less in their initial Social Security Benefits than their predecessors; and,

WHEREAS, the Social Security Trust Fund has a surplus which is projected to increase to 167 Billion Dollars by 1989 and into the trillions by the year 2000. Therefore, no payroll tax increase is necessary to correct the inequity of the Social Security "Notch"; and,

WHEREAS, benefits for persons born after 1921 will not be less than for persons born prior to 1921. With the passage of time, benefits under the wage indexing system will rise beyond levels generally payable under the transition because future wage increases will be reflected in a higher AIME and in adjustments to the benefit formula. The cost of the Social Security Program is not paid by the Federal Government. Social Security is not a welfare entitlement program. It is insurance - taxed to employee/employer and designated as FICA on payroll tax forms (Federal Insurance Contribution Act); and,

WHEREAS, the Social Security Program has never contributed to the federal deficit. It is a self-supporting program with income exceeding disbursements and Social Security should not be included as a budget item during legislative talks for COLA freezes. It is operating at a surplus; it does not use government money; Social Security cost-of-living raises would not affect the federal deficit in any way; and, WHEREAS, "Notch" year citizens have contributed all their productive years to help finance the cost of the United States Government; therefore, we believe we should have and shall expect correction of this discrimination, now,

THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL of the City of DeKalb, Illinois, as follows:

Section 1. That the City Council of the City of DeKalb, Illinois, supports the "Notch Babies" in their efforts to change the inequities in the Social Security Laws of 1977.

Section 2. That the City Council supports legislation seeking to change this inequity and further calls upon our Senators and Representatives in Congress to do the same.

Section 3. That this Resolution be sent to our Congressmen as well as the Ways and Means Committee, U.S. House of Representatives, Washington, D.C. 20515, and the Finance Committee, U.S. Senate, Washington, D.C., 20510, to request passage of a bill to correct the "Notch" inequity.

PASSED BY THE CITY COUNCIL of the City of DeKalb, Illinois, at a regular meeting thereof held on the 25th day of August, 1986, and approved by me as Mayor on the same day.

Greg Sparrow
GREG SPARROW, Mayor

ATTEST:

Marguerite Hoyt
MARGUERITE HOYT, City Clerk

State of Maine

In the Year of Our Lord Nineteen Hundred and Eighty-Six

JOINT RESOLUTION MEMORIALIZING THE CONGRESS OF THE UNITED STATES TO ADOPT LEGISLATION RELATING TO THE UNITED STATES SOCIAL SECURITY ACT

We, your Memorialists, the House of Representatives and Senate of the State of Maine, in the Second Regular Session of the One Hundred and Twelfth Legislature now assembled, most respectfully present and petition the Congress of the United States, as follows:

Whereas, at the present time under the United States Social Security Act, individuals who became eligible for benefits in or after 1979 receive reduced benefit levels compared to individuals who became eligible prior to 1979, due to changes made in 1977 in the benefit computation formula; and

Whereas, this disparity in benefit levels has been referred to as the "notch" and has resulted in the award of reduced benefits to approximately 1.3 million persons; and

Whereas, any remedy for narrowing the gap in benefits is complicated because the notch has been in use since 1979; and

Whereas, H.R. 4093 has been introduced in the 98th session of the United States Congress by Representative Roybal, the Chairman of the House Committee on Aging, in an effort to eliminate the notch; and

Whereas, it is appropriate that the Legislature of the State of Maine take a stand in support of this legislation to protect the rights of the citizens of our State; now, therefore, be it

Resolved: That We, your Memorialists, do hereby respectfully urge the Congress of the United States to adopt H.R. 4093 or similar legislation to eliminate the disparity in benefit levels awarded under the United States Social Security Act with respect to benefits awarded prior to 1979 and in and after 1979, so as to provide equitable benefits for retirees; and be it further

Resolved: That a copy of this resolution, duly authenticated by the Secretary of State, be transmitted by the Secretary of State to the Honorable Ronald W. Reagan, President of the United States; the President of the Senate; and the Speaker of the House of Representatives in the Congress of the United States and to each Member of the Maine Congressional Delegation.

House of Representatives
Read and Adopted
January 8, 1986
Sent up for Concurrence

In Senate Chamber
Read and Adopted
In Concurrence
January 8, 1986

H.P. 1263

ATTEST: Ed Pert
EDWIN H. PERT
Clerk of the House of Representatives

ATTEST:
JOY J. O'BRIEN
Secretary of the Senate

Presented By:
Speaker John L. Martin of Eagle Lake

Cosponsored By:
President Charles P. Pray
of Penobscot County

STATE OF OKLAHOMA

2nd Session of the 40th Legislature (1986)

SENATE CONCURRENT
RESOLUTION NO. 55

BY: ROBERTS

AS INTRODUCED

A CONCURRENT RESOLUTION REQUESTING CONGRESS AND THE PRESIDENT OF THE UNITED STATES TO ENACT LEGISLATION EQUALIZING OLD AGE BENEFIT LEVELS FOR PERSONS WITH SIMILAR WAGE HISTORIES REGARDLESS OF THE DATE WHEN SUCH PERSONS REACH SIXTY-TWO YEARS OF AGE; AND DIRECTING DISTRIBUTION.

WHEREAS, the federal Old Age Survivors' and Disability Insurance Program was established in order to provide certain persons, including the elderly, with an adequate income to meet basic needs and live in a dignified manner; and

WHEREAS, persons with similar wage histories receive greater old age benefits under this program if they have reached the age of sixty-two during or prior to 1978 than if they reach the age of sixty-two after 1978; and

WHEREAS, it is clearly unjust to permit persons reaching the age of sixty-two (62) after 1978 to receive substantially less in Social Security benefits than those with similar wage histories who reached the age of sixty-two (62) prior to 1978.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE OF THE 2ND SESSION OF THE 40TH OKLAHOMA LEGISLATURE, THE HOUSE OF REPRESENTATIVES CONCURRING THEREIN:

THAT the Oklahoma State Legislature hereby requests the Congress and President of the United States to enact legislation equalizing old age benefit levels received under the Social Security program for all persons with similar wage histories, regardless of the date when such persons reach sixty-two years of age.

THAT copies of this resolution be dispatched to the President of the United States, the Speaker of the House of Representatives, the President Pro Tempore of the Senate and each member of the Oklahoma Congressional Delegation.

40-2-1361 SBD:# 04/03/86

[illegible] 3

HOUSE CONCURRENT RESOLUTION

INTRODUCED BY

REPRESENTATIVE(S)

________ read first time and referred:

A CONCURRENT RESOLUTION urging Congress to enact legislation to correct the injustice created by the notch in the social security law.

Whereas, The ten million Social Security beneficiaries born during 1917 through 1921 (the so-called "notch victims") receive up to 24 percent less than beneficiaries born before 1917 with identical work histories; and

Whereas, Notch victims receive no credit for earnings after 61 years of age under current law; and

Whereas, The notch law discriminates on no basis besides age; and

Whereas, A group especially hard hit by the notch discrimination is composed of World War II veterans; and

Whereas, The notch problem is a grave injustice, an injustice that is unworthy of a great government like the United States: Therefore,

Be it resolved by the House of Representatives of the General Assembly
of the State of Indiana, the Senate concurring:

SECTION 1. That we urge the Congress to enact legislation to correct the injustice created by the notch in the Social Security law that discriminates against persons born during 1917 through 1921.

SECTION 2. That copies of this resolution be sent to the presiding officers and to the majority and minority leaders of both houses of Congress and to each member of Congress representing the people of Indiana.

Printer's No. 2495

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 191

Session of
1985

INTRODUCED BY DAWIDA, DUFFY, CESSAR, MARKOSEK, McCALL, CLARK, BALDWIN, ITKIN, LANGTRY, VROON, YANDRISEVITS, FARGO, HALUSKA, COY, CALTAGIRONE, VAN HORNE, FOX, KUKOVICH, RUDY, J. L. WRIGHT, LEVDANSKY, KOSINSKI, BLAUM, GAMBLE, WOGAN, DEAL, PISTELLA, LIVENGOOD, MICOZZIE, PRATT, FREEMAN, COHEN, COWELL, NOYE, E. Z. TAYLOR, DeLUCA, J. TAYLOR, MAYERNIK, FISCHER, LAUGHLIN AND CIVERA, NOVEMBER 18, 1985

REFERRED TO COMMITTEE ON RULES, NOVEMBER 19, 1985

A RESOLUTION

Memorializing Congress to adopt legislation to correct the disparity and inequity of Social Security payments created by the notch year formula.

WHEREAS, Under the Social Security automatic benefit increase provision enacted in 1972, Social Security benefits began to increase to unintended high levels because of what was seen as a flaw in the benefit formula and, left unchanged, the 1972 formula would mean that benefits to retirees retiring at some point in the future would be higher than their earnings had been at the point of retirement; and

WHEREAS, The 1977 amendments to the Social Security automatic benefit increase provision made significant changes in the benefit formula, with the result that benefits for workers who reached retirement age in 1979 would be significantly lower than those for persons who retired in 1978, creating a situation in which those persons born in 1917 or thereafter would receive a notch less in benefits than those who were born previous to 1917; and

WHEREAS, Persons born after 1917 have served this country in World War II and have contributed immeasurably to the growth and development of America; therefore be it

RESOLVED, That the House of Representatives of the Commonwealth of Pennsylvania memorialize Congress to adopt legislation to correct the disparity and inequity of Social Security payments created by the notch year formula.

IN THE HOUSE NOV. 18, 1985

REFERRED TO RULES, NOV. 19, 1985
REPORTED AS COMMITTED, JAN. 27, 1986
ADOPTED, JAN. 29, 1986 (196-0)

Chairman Jacobs. Thank you.

Mr. Stern, it looks like you are the clean up person. You are next.

STATEMENT OF JULIAN STERN, CHAIRMAN, SOCIAL SECURITY NOTCH YEAR COMMITTEE, ACCOMPANIED BY EDWARD MILLER, LEGISLATIVE DIRECTOR

Mr. Stern. Thank you, sir. Mr. Chairman, with your permission, in order to save time——

Mr. Cooper. Julian, let me interrupt just 1 minute. I would like to be excused. I have a plane to catch in a short time.

Chairman Jacobs. Yes, sir, you may be excused.

Mr. Cooper. Thank you.

Mr. Stern. May I proceed?

Chairman Jacobs. Yes.

Mr. Stern. With your permission, sir, in order to save time I will not read my full statement at this time but I would ask that my written statement be submitted to the record. Thank you.

First I want to make it very clear. We are not rabble-rousers or cry-babies as some would have you believe. We are a group of concerned American citizens seeking redress for a mistake that was made in 1977. All of us went through the Great Depression and most of us served during World War II. I myself served 38 months in the Army serving in the continental United States and the Philippines. I am here on behalf of these people.

People are as frustrated over the fact that they cannot get this issue to the floor of the House as they are over the loss they incurred. We do not doubt that you have the legal right to withhold this bill. But we feel that you do not have a moral right to withhold the bill. We urge you to release the notch legislation to the full House where it can be debated and voted upon.

And to add, sir, I hear from the AARP and other concerned organizations about the fact that we should not correct this. But I want you to know, in my travels doing this job that I have been doing, and with no remuneration, all the clubs that I visited, AARP, Council of Senior Citizens, all agreed, the rank and file, that something should be done about the notch. Unfortunately, they have not convinced their leadership. I think their leadership should listen to the rank and file and this issue would be complete and over with.

Thank you very much.

[The statement of Julian Stern follows:]

STATEMENT OF JULIAN STERN, CHAIRMAN, SOCIAL SECURITY NOTCH YEAR COMMITTEE, DELRAY BEACH, FLORIDA

My name is Julian Stern. I live at 14265 Campannelli Drive Delray Beach, Florida. I chair the Social Security Notch Year Committee based in Delray Beach, Florida. I also chair Notch Committees for the Palm Beach Political Co-operative, The Delray Villas Mens Club, The West Delray Democratic Club, Chapter 152 Disabled American Veterans, and Post 266 The Jewish War Veterans. I am also a founding member of the Notch Babies Grass Roots National Coalition. In this capacity I feel qualified to speak for the more than 600 thousand Notch Victims in Florida, and the more than 20 million across the nation.

I first learned about the Notch after several unsuccessful attemps to find out why my 1979 income was not included in my benefit computation finally brought the reply from my local Social Security office, that it was not included because I was a Notch Baby. When I responded with amazament I was told the reason I was not told before this was they were afraid of what my reaction would be. I felt then and I still feel that this is an injustice and the only way to correct it is to press for legislative action by Congress. After a committee was formed, hundreds of letters were sent to the Congress. We quickly learned that unless you are a constituant your letter is ignored, or it is forwarded to your own Congress person. It was then I decided to try other tactics. Resolutions from State, County, and City Governments: the first of these was through the good efforts of Commissioner Dorothy Wilken of Palm Beach County. This was followed by a resolution from the State of Florida. This was done through the good efforts of Florida State Representative Steven Press. Representative Press also sent letters to every other State in the Union. Twelve other States followed suite. We have also obtained resolutions from a number of cities along the East Coast of Florida. It was just about that time I learned I was not alone in this fight. With the help of Congressmans Roybal's Staff I made contact with other groups across the country. One thing we all learned was that if we expected to get action on any bill to correct the Notch help was needed from other people in our age group.

We made known our exsistence by radio, T.V. and newspapers. Believe it or not even at this late date there are people who are not aware of the Notch. This has been the best kept secret in the country. Our efforts brought thousands of requests for information and offers of help. Many nights I have worked into the wee hours of the morning answering letters. My phone never stops ringing, and even at this late date I get at least two call a day.

by people requesting information as to our progress. I speak at clubs, Churches, and civic centers, and any place I can get a platform. At each meeting the hall is filled to overflowing. I am sure this is not because of me but it is due to the desire of people to know more about something that effects their income.

We are not rabble rousers, or cry babies as some would have you believe. we are a group of concerned American citizens seeking redress for a mistake that was made in 1977. All of us went through the great depression, and most of us served during World War 2 . I Myself served 38 months in the army serving in the continental United States and the Philippines. I am here on behalf of these people to seek release of this bill so that it might be debated and voted upon in the House.

Chairman **Jacobs**. Mr. Levin?

Mr. **Levin**. No questions. Just to thank all of you who have been so patient. I know you would do that, Mr. Chairman.

Chairman **Jacobs**. I tell you, our heart goes out to the people who come at the end of these hearings, and quietly to ourselves.

Mr. **Levin**. There is obvious much difference of opinion here. And under the leadership of the chairman, this subcommittee has attempted to dip into that diversity and divergence. And as a tribute to you, Mr. Chairman, I think the subcommittee and the staff have done it effectively. We will take back for consideration more information as well as this richness of different views.

So to all of you, thank you for joining us.

Chairman **Jacobs**. Thank you all very much and good night.

[Whereupon, at 5:19 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

WASHINGTON OFFICE
HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515
(202) 225-2601

NEW YORK OFFICE
118-35 QUEENS BOULEVARD
FOREST HILLS, NY 11375
(718) 263-1525

Gary L. Ackerman
Congress of the United States
7th District, New York

COMMITTEE ON
FOREIGN AFFAIRS
SUBCOMMITTEES
ASIAN AND PACIFIC AFFAIRS
EUROPE AND THE MIDDLE EAST
HUMAN RIGHTS AND
INTERNATIONAL ORGANIZATIONS
TASK FORCE ON
INTERNATIONAL NARCOTICS CONTROL

COMMITTEE ON THE
POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEES
CHAIRMAN,
COMPENSATION AND EMPLOYEE BENEFITS
POSTAL PERSONNEL AND MODERNIZATION

SELECT COMMITTEE ON HUNGER

Mr. Chairman, first of all, I would like to thank you for holding this hearing. The notch is an issue that will not go away, and it deserves this public forum. I would also like to thank you for allowing me this opportunity to testify and express my desire to see the notch resolved once and for all.

No other single issue has evoked as much reaction from my constituents as notch reform has. I have received thousands of letters and phone calls asking that this inequity in Social Security benefits be amended. Since my first days in Congress, I have been deluged with correspondence concerning the notch. Although my district includes a large number of senior citizens, I know my experience is not much different than that of my colleagues.

While the notch gap may be portrayed as a bonus to those born prior to 1917--not a penalty to those born in the notch years--it is an inequity nontheless. It is time we face up to the fact that in 1977, in Congress' attempt to save Social Security, an unfair benefit formula was thrust upon an estimated 10 million Americans.

Mr. Chairman, this body has a reputation as a place where fairness prevails. We must continue our commitment to fairness by not discriminating against those who were born between 1917 and 1921. Because of my quest for fairness, and the previously mentioned reasons, I have joined in sponsoring the major notch correction measures that have been introduced in the 100th Congress. I have signed on to both HR 1917 and HR 3788.

As you know, both of these bills would go a long way towards increasing the monthly benefits of the so called "notch babies." These are people who have worked hard, and paid their fair share into the Social Security system. Now, because of the misfortune of being born at the wrong time, they don't recieve the same benefits as many of their peers. I need not explain to you the financial hardships that many of our elderly citzens have to face. The additional income that notch reform could provide might just be the insulation against certain poverty for many Social Security recipients.

Sponsoring legislation is not the only way to confront this problem. I have also joined the Notch Coalition, which is composed of concerned Members of Congress, in order to help present a united front for the resolution of this problem.

Mr. Chairman, it is my hope that Congress will soon enact legislation that will restore equality to millions of Social Security recipients. I also hope that this hearing will result in positive action so that we will no longer be faced with the notch dilemma.

TESTIMONY OF REPRESENTATIVE FRANK ANNUNZIO
ON THE SOCIAL SECURITY "NOTCH"
BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY
OF THE HOUSE WAYS AND MEANS COMMITTEE
APRIL 14, 1988

Mr. Chairman: I would like to take this opportunity to commend you for holding this hearing today on the Social Security "notch." The "notch" has generated much controversy, and this hearing will help to put the issue in proper perspective.

In 1972, Congress double-indexed Social Security benefits to compensate for inflation. This formula, if retained intact, could have resulted in a situation where individuals retiring after the year 2000 would have received more in Social Security benefits than their pre-retirement earnings. To correct this oversight, Congress approved the Social Security Amendments of 1977, introducing a new benefit formula which reduced the earlier overcompensated benefit levels.

However, to protect beneficiaries from abrupt reductions in their Social Security benefits, a five year transition formula was created. The original intent of Congress was to provide a modest initial decrease in benefit levels for this transition group over this five year period, and then to stabilize benefit levels for all Social Security recipients. Unfortunately, this stabilization did not occur. Instead, changes in the economy as well as a provision in the transition formula which excluded earnings after age 61 for those born in the "notch" years, resulted in a situation where some beneficiaries actually had their benefits reduced by as much as 24.1%.

Today, individuals born only days apart, and with the same work and salary histories, can have a disparity of monthly benefits of more than $160, because one was born in 1917 and one was born in 1916. Those born in the "notch" years, 1917-1921, contributed into the Social Security system and expected to receive their fair share of benefits. Over the years, they have contributed to the strength and greatness of America. As young adults, they struggled through the Great Depression, and many were called upon to serve their country and fight in World War II. They should not be penalized just because of their birth date.

Over the last several years, thousands of my constituents, who were born in the "notch" years, have contacted me to express their deep concern about this inequity, and have called upon the Congress to correct this problem. I was glad to add my name as a cosponsor to H.R. 1917, the Social Security Transitional Benefit Computation Act of 1987, a bill to provide for a more gradual 10-year period of transition to the changes in benefit computation rules enacted in the Social Security Amendments of 1977, as they apply to workers reaching age 65 in or after 1982, born in the "notch" years.

Mr. Chairman, these hearings serve to heighten public awareness about the Social Security "notch," and hopefully will lead to developing a solution to this problem. It is important that all Americans view Social Security benefits and taxes as fair, and I urge your Subcommittee to take the steps necessary to correct this "notch" inequity.

ROBERT J. LEONARD, CHIEF COUNSEL.
COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENATIVES
ROOM 1102
LONGWORTH HOUSE OFFICE BUILDING,
WASHINGTON, D.C. 20515.

RE: SOCIAL SECURITY TRUST FUNDS, "BABY BOOM" GENERATION.

DEAR MR. LEONARD:

PLEASE ACCEPT FOR THE PRINTED RECORD THIS INFORMATION, THANK YOU.

THOSE BORN 1910 THROUGH 1916 are NOW RECEIVING WINDFALL BENEFITS, A CONGRESSIONAL ERROR BY CONGRESS IN 1977..

THOSE BORN 1917 TO 1921, OR LATER HAVE NOT RECEIVED EQUAL BENEFITS UNDER THE LAW, AND THIS WILL CONTINUE UNTIL THOSE BENEFITS ARE DECREASED OR INCREASED.

TWO WRONGS DO NOT MAKE IT RIGHT AS THE CONSTITION DOES STATE THAT ALL AMERICANS BE TREATED EQUAL.

CONGRESS MADE TWO ERRORS, LET US GO FOWARD AND CORRECT THE "NOTCH" ONCE AND FOR ALL.

RESPECTFULLY YOURS,

Bernard Beck 5/17/88

BERNARD BECK
44 APPLE LANE, R.R. #2
BOURBONNAIS, ILL. 60914

P.S. I WOULD APPRECIATE A CONFIRMATION THAT YOU HAVE RECEIVED THIS COMMUNICATION.

TESTIMONY OF REP. MARIO BIAGGI (D-NY) BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY HEARING ON "NOTCH" ISSUE

April 14, 1988

Mr. Chairman. I would like to thank you for allowing me the opportunity to present testimony today on the "notch" issue which has become a matter of great concern to my own Congressional District in New York, but also to over ten million seniors across our nation.

As an original Member of the House Select Committee on Aging, I congratulate my colleagues and members of the Subcommittee on Social Security for expeditiously calling this hearing so soon after the release of the long awaited GAO report on the "notch" problem. It is my hope that the hearing today will lead us a little closer to a feasible solution to the economic disparity that plagues so many elderly people and which should be corrected.

Having read the GAO report, I am happy to learn that we are in agreement that the "notch" problem does exist, and that the benefit differences are significant in dollar amounts. I was also pleased to see that the GAO report confirmed that the Social Security trust funds have a growing surplus, which would be more than sufficient to cover the costs associated with rectifying the notch problem.

However, as a Member of Congress who receives and has been receiving approximately 50 letters per day from seniors in my district on this subject, I was greatly disappointed to learn that GAO has failed to endorse any specific legislative solution to this problem. I have been an original co-sponsor of H.R. 1917 for the past two Congresses, introduced by my colleague, Rep. Edward Roybal (D-California) Chairman of the House Select Committee on Aging. I still strongly support H.R. 1917, which would replace the current five year transition formula with a transition period of 15 years for maximum earners, and 28 years for average earners. I know that this legislation would result in the replacement of lost benefit levels to those who fall within the 1917 to 1921 categories.

It has been stated by some Members of Congress as well as GAO that there are too many costs associated with notch reform. It is my feeling that those who have cited these costs are merely waving a red flag since, as I stated before, the Social Security trust funds are more than sufficient to meet these costs. I am happy to report that the GAO report confirms the trust fund surpluses to be approximately over $65 billion at the present time. It is expected to reach $260 billion by 1991. The worst case scenario of notch reform is $82 billion.

When Congress initiated the legislation that created the now notorious "notch problem", it was in an effort to stabilize replacement rates and lower their level. But, by doing so, many retirees born in 1917 and thereafter received smaller benefit amounts than those born just before them. Examples have been cited of members of the same family, brothers or sisters, who worked together for approximately the same pay for the same amount of time, but because of the differences in their birth dates, one receives a smaller monthly check. This is discrimination as far as I am concerned, and I am not comfortable as a legislator turning my back on this type of discrimination, which victimizes the pocketbooks of senior citizens.

I believe it is the responsibility of Congress, who created the problem, to rectify it once and for all. I think it is about time we make the effort to recompense those seniors who are affected in an equitable manner.

Thank you for allowing me to present testimony at this very important hearing.

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APR 12 1988

April 6, 1988

5425 Jaynes ST
Omaha, Nebraska

Honorable Andy Jacobs, Jr, Chairman
Subcommittee on Social Security
1533 LHOBWashington, D. C. 20515

Dear Mr. Jacobs:

It is my understanding you have scheduled a Subcommittee Hearing April 14th concerning a Social Security Correction of the Notch.

The attached rePresents certain points I would prefer to present in person April 14th. However, would it be possible to include such in the written record?

Note by the SSA letter copies it was the intention of Congress to cut those benefits by $120.50 and $159.00, nearly 255. Do you feel Congessional Candidates can run successfully proclaiming such a platform?

A copy of this is going to my Congressman, Hal Daub. He and his father are acqqaintances of many years.

Sincerely yours,

John L Brown

ARE THE SOCIAL SECURITY ADMINISTRATION (SSA) AMENDMENTS ALWAYS FAIR??

This will begin with the 1977 amendments prompted by the technical flaw in the 1972 amendments. There was then put in place a "double indexing", a "coupling", of the levels of wages and prices. Had wages and prices declined from 1972 to 1977, so would have retirement benefits to new retirees. The opposite actually happened. SSA retirement benefit payments exceeded income. So, PL 95-216 effective Jan. 1, 1979 was signed by President Carter Dec. 20, 1977, to reduce benefits and bring about a decoupling. Replacement rates--benefits as a percentage of preretirement earnings--were intended to be stabilized at a level about 5 percent lower than estimated to prevail in January, 1979.

A five year transition period was provided for the "notch" years, those born 1917, 1918, 1919, 1920 and 1921. It would appear the orderly reduction would be 1 percent a year. But, here are a couple of examples of something quite a bit different. The SAS by letter of Dec. 16, 1985, advised a Council Bluffs resident that under the old method of benefit computation, the monthly benefit would be $505.50. Would you normally think the reduction by the "notch" announced calculation would be 5 percent, about $25.00? If you do, you are in error. Rather than a monthly check of $480.00, the letter continues and states "your current monthly benefit amount is $384.00. For another retiree, the figures are $713.00, reduced not $36.00, but $159.00 to $554.00. Here the reductions are very, very unfair, close to 5 times 5 percent.

There are untold numbers of similar examples, current and former beneficiaries.

Not all benefits were so affected. The maximum monthly age 62 benefit payable at retirement in 1979 was $388.90 and $402.80, $432.00, $474.00, $526.40, $559.40 for the next five years following. Similarly, the maximum age 65 benefits for retirement in 1982 were $679.30, $703.60, $717.20, $760.20 and $789.20 for the following five years.

I have not read a news story of an editorial or a commentary that the "notch" could have been prevented. Mr. Robert J. Myers, on August 13, 1985, stated to the Special Committee on aging United States Senate, that the notch could have been prevented and that he had so testified to the House Ways and Means Committee. His view was opposed by the Social Security Administration who claimed it could not be done administratively. Later, when he became Deputy Commissioner of the SSA in 1981, he "banged a few heads together and convinced them that it could be done. Later that year on October 15th, the American Enterprise Institute filed information with the Select Committee on aging of the House of Representatives which stated that the Congress did not have presented to it the "year-by-year benefits and replacement rates expected to arise before, in, and after the transition period." So, it might very well be asked, "Who is banging heads not to get those transition benefits spelled out and clearly stated in dollars per month, as well as the same for any notch adjustment proposed?"

The time for a notch correction is now. Cost estimates cover a very, very wide range. OASI Trust Funds at Jan. 1, 1987 were $39 billion; $58 billion in September. How much of this $58 billion is represented the excess notch reduction? Who can say?

Here are three suggestions to allay some concerns about trust funds:

1. Specify that none of the Jan. 1, 1987 Trust Funds can be used for a notch correction.
2. To avoid many assumptions about the future being bandied about like the number of angels on a head of a pin; Specify that a low level or partial correction be made for one year to determine a real, actual cost for the period.
3. Specify that SSA Beneficiaries can forego any SSA Benefit or portion thereof at any time and that donations can be made and applied to the Trust Funds as in the sum of the Federal Income Tax paid on SSA benefits.

Who in the Congressional Leadership is supporting a Notch Correction?

Supporting Documents

Paragraph 1	Social Security Amendments of 1977; Legislative History and Summary of Provisions--Article by John Snee and Mary Ross Social Security Bulletin, March, 1987, p 12, "Decoupling" Committee on Ways and Means, U.S. House of Representatives Annual Report of the Social Security Administration for Fiscal Year 1977 Submitted to the Congress on July 5, 1978 by the Department of Health, Education, and Welfare, p 68, "Decoupling"
Paragraph 2	Department of Health and Human Services Social Security Administration Council Bluffs, Iowa Letter of Dec. 16, 1985; another dated Feb. 18, 1986
Paragraph 3	Social Security Bulletin, Annual Statistical Supplement, 1987 Table L. 1, Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 62, 1957-1988, p 32 Table L. 2, p 33, the same information for those who retired at age 65
Paragraph 4	Congressional Briefing on the 50th Anniversary of Social Security, an Information Paper prepared by the staff of the Special Committee on Aging, United States Senate, August 13, 1985, Robert J. Meyrs, p 41 Reductions in Social Security Benefits: The Notch Hearing before the Select Committee on Aging, House of Representatives, October 15, 1985 American Enterprise Institute Legislative Analyses Proposals to Deal with the Social Security Notch Problem, p 75, Note 19
Paragraph 5	Social Security Bulletin, Jan. 1988, Table M-4--Old Age and Survivors Insurance Trust Funds: Status, 1940-1987, p 24

HOUSE-SENATE CONFERENCE COMMITTEE

Senate conferees were appointed immediately upon passage of the bill in the Senate on November 4, but appointment of House conferees was delayed. On November 3, a motion for unanimous consent (necessary because the Senate had not yet passed the bill) to appoint House conferees was blocked. Since the House did not meet again for legislative business before the Thanksgiving recess, the House conferees were not appointed until November 30—and, then, only after the House rejected a motion to instruct the conferees to insist on the House retirement test provisions.

The conference committee, chaired by Senator Long, convened on December 1 and began deliberations on H.R. 9346. The conferees encountered difficulties in three areas—financing, AFDC, and a Senate floor amendment that would have provided an income-tax credit for certain college tuition costs and related expenses.

Areas of disagreement on financing included unequal employee and employer contribution and benefit bases, the use of general revenues, the HI program, and the long-range actuarial balance. Of these areas, HI financing proved to be the most difficult on which to reach agreement. Floor action in the House and Senate would have adversely affected the financial status of the HI program in relation to the treatment accorded by either the Finance Committee or the Ways and Means Committee. Moreover, some House conferees felt strongly that the financial status of the HI program should not be worsened as a result of the legislation. A compromise was ultimately adopted under which the long-range deficit in the HI program was reduced from 1.16 percent of taxable payroll to 1.01 percent.

The conferees were also unable to reach quick agreement on the public assistance amendments. With certain modifications the four AFDC amendments that the Administration had indicated it could accept were finally adopted, and the amendment relating to the AFDC earned-income disregard was not accepted. A modification reducing the amount of fiscal relief that the Senate bill would have provided was agreed to, with the understanding that additional fiscal relief might be provided under H.R. 7200—the welfare bill still pending in the Senate. This bill also includes the earned-income disregard provision.

On December 9, as the congressional session was drawing to a close, the social security conference stalled. The Senate conferees insisted on including the tuition tax-credit provision that had been added to the bill on the Senate floor; the House conferees strongly opposed its inclusion. The following week, the Senate conferees receded from their position, and the conference committee reported the bill on December 14.

H.R. 9346, as agreed to by the conferees, was passed by the Senate on December 15, 1977 (the final day of the first session of the 95th Congress) by a vote of 56 to 12 and later the same day by the House of Representatives by a vote of 189 to 163. On December 20, H.R. 9346 was signed by President Carter and became Public Law 95-216, the Social Security Amendments of 1977. The specific provisions of the final legislation are described below.

Summary of Major Provisions

MAJOR CASH BENEFIT PROVISIONS

Decoupling

Under the previous law, projections of future benefits for current workers were highly dependent on projections of future rates of increases in wages and prices and, as a result, replacement rates could increase more rapidly or more slowly than average wages in general. Under current economic projections, future replacement rates—benefits as a percentage of preretirement earnings—were expected to rise substantially faster than average wages in the future.

In order to stabilize replacement rates in the future, at levels 5 percent below the levels projected for 1979 under the earlier law, basic changes are made in the way the worker's average earnings and social security benefit amounts will be figured. The 5-percent reduction is designed to offset the unintended overadjustment of benefits since the adoption of automatic cost-of-living increases in 1972. A comparison of projected replacement rates for hypothetical workers aged 62 at different relative earnings-levels under the old law and under the new law is shown in table 1.

As under the old law, benefits would be kept

LEGISLATION AND PROGRAM POLICY PLANNING

The Social Security Amendments of 1977

SSA was heavily involved in FY 1977 in legislative activity that culminated in the Social Security Amendments of 1977 (P.L. 95-216), signed by the President on December 20, 1977. The major accomplishments of the amendments were the stabilization of social security benefit levels ("decoupling") and the restoration of the financial soundness of the program in the near term and into the 21st century.

Decoupling

Decoupling reduces the sensitivity of the social security benefit structure to the relation between wage and price increases that under the old laws could have resulted in the over- or underadjustment of benefits of future retirees for inflation. Under any reasonable set of economic assumptions, social security benefits for future retirees would have been overadjusted for inflation with the result that, in many cases, future benefits would have been higher than the wages a person earned prior to retirement. This projected overadjustment of benefits would have occurred under the old law because of the interaction of automatic cost-of-living benefit increases and rising wages on potential future benefits for current workers.

Under the new law, effective January 1979, benefit protection for future beneficiaries will generally keep pace with wage increases during working years and with increases in the cost of living after workers become eligible for benefits or die. Replacement rates—benefits as a percentage of preretirement earnings—will be stabilized at a level about 5 percent lower than that estimated to prevail in January 1979. After a person begins receiving benefits, he or she will receive cost-of-living increases, as under the old law. The decoupling provisions are designed to assure that the system will operate roughly as it would have under the economic assumptions made when the automatic adjustment provisions were enacted in 1972.

Financing

The financing provisions in the 1977 amendments raise the taxable earnings base—the maximum amount of a worker's annual earnings that is taxable and creditable toward benefits under the program—increase social security tax rates, including restoration of the self-employed rate to its original level of one and a half times the employee rate, and increase the allocation of income to the disability insurance part of the cash benefits program. Reallocation of part of previously scheduled increases in hospital insurance tax rates to the cash benefits program is also provided for in light of the additional income to the hospital insurance program resulting from the higher taxable earnings bases under the amendments.

The provisions substantially reduce the projected 1978 and 1979 annual deficits in the cash benefits program and provide for excesses of income over expenditures starting in 1980. During the remainder of this century, the trust funds will grow relative to annual expenditures, and the program is soundly financed until well into the next century. The long-range financing deficit, averaged over a 75-year valuation period, is reduced from more than 8 percent of taxable payroll to less than 1½ percent.

Coverage Changes

Included in P.L. 95-216 are provisions which

- —require a study, headed by HEW, of the question of mandatory coverage for Federal, State, local, and nonprofit organization employees.
- —authorize bilateral (totalization) agreements with other countries for limited coordination of their social security systems

DEPARTMENT OF HEALTH & HUMAN SERVICES
Phone: 325-5513

Social Security Administration

103 North Avenue
Drawer 396
Council Bluffs IA 51502

December 16, 1985

Under the old method of computing social security benefits, your unreduced amount would have been $627.60. Your reduced amount would have been $505.50. Under the indexing method of computing benefits, your current monthly benefit amount is $384.00.

The changes made by the 1977 amendments were not made to penalize workers born after 1916. Rather, the amendments were intended to correct a flaw in the old law benefit formula that overadjusted for inflation and threatened the solvency of the Social Security trust funds. Congress intentionally established benefit levels lower than those prevailing under the old laws.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

103 North Avenue
Drawer 396
Council Bluffs IA 51502

February 18, 1986

Under the old method of computing social security benefits, your unreduced amount would have been $885.90. Your reduced amount would have been $713. Under the indexing method of computing benefits, your current monthly benefit amount is $554.

The changes made by the 1977 amendments were not made to penalize workers born after 1916. Rather, the amendments were intended to correct a flaw in the old law benefit formula that overadjusted for inflation and threatened the solvency of the Social Security trust funds. Congress intentionally established benefit levels lower than those prevailing under the old laws.

Table L.1.—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 62,[1] 1957–88

Year of attainment of age 62[2]	Minimum benefit		Maximum benefit			
	Payable at the time of retirement	Payable effective December 1987[3]	Payable at the time of retirement		Payable effective December 1987[3]	
			Men	Women	Men	Women
1957	$24.00	$200.60	...	$86.80	...	$493.80
1958	24.00	200.60	...	86.80	...	493.80
1959	26.40	200.60	...	92.80	...	493.80
1960	26.40	199.80	...	95.20	...	506.40
1961	26.40	198.80	...	96.00	...	510.10
1962	32.00	198.10	$93.60	96.80	$497.50	514.80
1963	32.00	197.10	94.40	97.60	501.20	518.00
1964	32.00	197.10	95.20	98.40	504.20	521.50
1965	35.20	196.70	102.80	105.40	507.10	520.30
1966	35.20	195.30	102.80	106.20	505.30	522.20
1967	35.20	193.90	105.40	108.80	516.60	532.70
1968	[4]44.00	191.50	[4]121.00	[4]124.80	519.20	535.90
1969	44.00	189.80	124.80	128.40	530.30	545.90
1970	51.20	187.10	146.80	151.90	535.50	553.90
1971	56.40	184.60	163.60	170.50	534.70	557.60
1972	56.40	182.00	167.10	172.90	538.90	557.50
1973	67.60	179.30	207.60	212.90	549.00	563.30
1974	67.60	176.50	217.00	219.70	565.80	572.50
1975	75.10	174.20	253.10	253.10	585.80	585.80
1976	81.20	172.10	285.60	285.60	604.90	604.90
1977	88.40	170.80	319.40	319.40	631.40	631.40
1978	91.50	170.00	354.60	354.60	660.50	660.50
1979	97.60	170.70	[5]388.90	[5]388.90	680.20	680.20
1980	97.60	155.10	[5]402.80	[5]402.80	640.80	640.80
1981	97.60	135.60	432.00	432.00	601.20	601.20
1982	[6]	[6]	474.60	474.60	594.00	594.00
1983	[6]	[6]	526.40	526.40	613.40	613.40
1984	[6]	[6]	559.40	559.40	629.80	629.80
1985	[6]	[6]	591.30	591.30	643.40	643.40
1986	[6]	[6]	630.50	630.50	665.40	665.40
1987	[6]	[6]	662.10	662.10	689.90	689.90
1988	[6]	[6]	686.70	686.70	...	...

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[1] Benefit first available at age 62 to female workers effective November 1956 and to male workers effective August 1961.

[2] Assumes retirement at beginning of year.

[3] Final benefit amount payable after any deductions (including SMI premium for those aged 65 or older) is rounded to next lower $1.

[4] Effective for February 1968.

[5] Derived from transitional guarantee computation based on 1978 PIA table.

[6] Minimum PIA eliminated for workers who attain age 62 after 1981. (The minimum is retained until 1991 for members of religious orders who are under a vow of poverty provided that the order had elected Social Security coverage before Dec. 29, 1981.)

CONTACT: Joseph Bondar/Herman Grundmann (301) 965-0162/0183 for further information.

Table L.2.—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 65, 1940–88

Year of attainment of age 65[1]	Minimum benefit		Maximum benefit			
	Payable at the time of retirement	Payable effective December 1987[2]	Payable at the time of retirement		Payable effective December 1987[2]	
			Men	Women	Men	Women
1940	$10.00	$213.00	$41.20	$41.20	$412.00	$412.00
1941	10.00	213.00	41.60	41.60	412.00	412.00
1942	10.00	213.00	42.00	42.00	417.00	417.00
1943	10.00	213.00	42.40	42.40	417.00	417.00
1944	10.00	213.00	42.80	42.80	421.50	421.50
1945	10.00	213.00	43.20	43.20	421.50	421.50
1946	10.00	213.00	43.60	43.60	426.60	426.60
1947	10.00	213.00	44.00	44.00	430.60	430.60
1948	10.00	213.00	44.40	44.40	430.60	430.60
1949	10.00	213.00	44.80	44.80	434.80	434.80
1950	10.00	213.00	45.20	45.20	440.30	440.30
1951	20.00	213.00	68.50	68.50	440.30	440.30
1952	20.00	213.00	68.50	68.50	440.30	440.30
1953	25.00	213.00	85.00	85.00	486.40	486.40
1954	25.00	213.00	85.00	85.00	486.40	486.40
1955	30.00	213.00	98.50	98.50	486.40	486.40
1956	30.00	213.00	103.50	103.50	913.70	513.70
1957	30.00	213.00	108.50	108.50	537.10	537.10
1958	30.00	213.00	108.50	108.50	537.10	537.10
1959	33.00	213.00	116.00	116.00	537.10	537.10
1960	33.00	213.00	119.00	119.00	550.50	550.50
1961	33.00	213.00	120.00	120.00	554.90	554.90
1962	40.00	213.00	121.00	123.00	559.90	559.40
1963	40.00	213.00	122.00	125.00	564.50	577.90
1964*	40.00	213.90	123.00	127.00	569.40	587.50
1965	44.00	213.00	131.70	135.90	569.40	587.50
1966	44.00	213.00	132.70	135.90	573.60	587.50
1967	44.00	213.00	135.90	140.00	587.50	617.90
1968	55.00	213.00	[3]156.00	[3]161.60	596.50	617.90
1969	55.00	213.00	160.50	167.30	613.90	639.80
1970	64.00	213.00	189.80	196.40	631.00	653.30
1971	70.40	213.00	213.10	220.40	644.00	665.50
1972	70.40	213.00	216.10	224.70	653.30	678.90
1973	84.50	213.00	266.10	276.40	670.10	696.10
1974	84.50	213.00	274.60	284.90	691.20	717.40
1975	93.80	213.00	316.30	333.70	717.40	756.80
1976	101.40	213.00	364.00	378.80	763.90	795.10
1977	107.90	213.00	412.70	422.40	814.20	833.10
1978	114.30	213.00	459.80	459.80	856.50	856.50
1979	121.80	213.00	503.40	503.40	880.30	880.30
1980	133.90	213.00	572.00	572.00	910.10	910.10
1981	153.10	213.00	677.00	677.00	942.40	942.40
1982	[4]170.30	213.00	[4]679.30	[4]679.30	850.20	850.20
1983	[4]166.40	193.80	709.50	709.50	826.90	826.90
1984	[4]150.50	169.30	703.60	703.60	792.30	792.30
1985	(5)	(5)	717.20	717.20	780.40	780.40
1986	(5)	(5)	760.10	760.10	802.20	802.20
1987	(5)	(5)	789.20	789.20	822.30	822.30
1988	(5)	(5)	838.60	838.60		

[1] Assumes retirement at beginning of year.

[2] The final benefit amount payable after SMI premium or any other deduction is rounded to next lower $1.

[3] Effective for February 1968.

[4] Derived from transitional guarantee computation based on 1978 PIA table.

[5] Minimum PIA eliminated for workers who attain age 62 after 1981. (The minimum is retained until 1991 for members of religious orders who are under a vow of poverty provided that the order had elected Social Security coverage before Dec. 29, 1981.)

CONTACT: Joseph Bondar/Herman Grundmann (301) 965-0162/0183 for further information.

would be improved. But I think you always have got to balance social adequacy with social costs.

Therefore, my answer is, if you said, gee, we do have two-thirds of 1 percent of payroll to do this wonderful thing, I would say to you, use the two-thirds of 1 percent of payroll for long-term care and/or prescription drugs or some other alternatives I have. So it seems to be the issue is not trying to perfect this system so that every individual has perfect equity, but whether the social needs of the Nation as a whole are served in relation to the social cost. Therefore, I think you come to a different conclusion.

Chairman Heinz. I have saved the next question for last because it is the toughest question. It refers to the notch, and there is a large notched saw out there. By way of introduction to this problem to which I know none of you are strangers, last night I had a town meeting in Beaver Falls in Beaver, PA. There was a small contingent of notch babies there, and we had a discussion of the notch problem.

We identified the fact that there are at least three clear solutions, the first two of which can be justified one way or another in the name of equity. Solution No. 1 is to take the unintended benefits that were bestowed by Wilbur Mills upon those born between roughly 1912 and 1916, take those benefits where the replacement ratio rate got up to say as much as 56 percent for the people who retired in 1979, just take that away. In some sense of the word, that would be fair and there would be no notch under those circumstances. You would have created the straight replacement ratio line. That was one solution.

The second solution would be to raise everybody to the level of the peak of 1979 and raise, in effect, the replacement rate from, currently, 40 percent to around 56 percent, about a 38-percent increase in benefits both for the notch babies and for anybody who would come after them forever. That costs a lot of money.

The third alternative, which was the only other one that occurred to anybody, was to recognize that there was some problem with both of those solutions. The latter costs a lot of money. The former cuts benefits for people who have already got them, thereby penalizing other people for a problem not of their making. The third alternative, the one that Congress occasionally chooses when confronted with the delve in the deep blue sea, is to do nothing.

Having discussed all that, we then put it to a vote. There were about 250 to 300 people present. In terms of cutting the benefits of the people who got the unintended benefits, I would say that, maybe, a dozen people, about 5 percent at most of those present, raised their hands. In support of raising the notch babies to the level of the people who were preceding them, I would say, maybe, another dozen or so people raised their hands. They were notch babies. On the question of doing nothing, I would say that another dozen people raised their hands. Clearly, I have not thought of every alternative because the vast majority of people were not satisfied with any of those solutions.

My question to you is—and whoever wants to stick their head into the lion's den is welcome to do so. Speaking of notches, maybe they should be called fangs, I do not know. What is the right solution to the problem and why? Because as there are several dozen

people out there in the audience who will tell you, when they look at their Social Security check and they find it is $100 less than somebody who they may have worked side by side with for a lifetime and they retired a year or two later, they find it pretty difficult to understand.

Who wants to address that issue? Bob Myers, I see you flinching.

Mr. Myers. Yes; I am afraid. I have addressed the issue of the notch before. I am afraid that perhaps the tar and feathers are being prepared in the anteroom, but I think I can speak quite objectively about this matter. I have studied this subject, I might say in all modesty, more than anybody else in the country.

In 1977, the notch was introduced as part of an overall change in the system. I do not think that Wilbur Mills can be blamed for this. It was the 1977 legislation that did it.

Chairman Heinz. Well, the problem that was created when the first index—the problem that created the notch was the unintended raising of the benefits, I believe, at least for the prenotch babies.

Mr. Myers. That is correct, Mr. Chairman.

Chairman Heinz. When was that created?

Mr. Myers. In 1972.

Chairman Heinz. It was 1972 when we put in the annual cost-of-living increase.

Mr. Myers. Yes, but in 1977 when the technical flaw in the 1972 act was corrected, the notch could have been prevented. In fact, if I might say, I testified before the House Ways and Means Committee that this was a problem which was going to occur. I did not realize that it was going to be as bad as it has been because of the actual economic conditions, but I knew there was going to be a problem.

What happened was that the Social Security Administration, unfortunately, said they couldn't handle it any way administratively. I thought that they were wrong, but they said so. In 1978, hearings were held again by the Ways and Means Committee about the notch, because now more and more people were aware that it was happening. I again testified, and I proposed a way of solving the problem; but, again, the Social Security Administration said it could not be done administratively.

When I went back in 1981 as Deputy Commissioner, I banged a few heads together and convinced them that it could be done, but by this time, since no legislation was enacted in 1981, it got to be too late.

You are quite correct as to the three possible solutions. On the first one, in essence, of taking the windfall or excessive benefit away from the people born in 1916 and earlier who are really getting too much, this could be done more or less painlessly by denying them the cost-of-living adjustments until the windfall was caught up. That would be a terrific administrative job as well as a public relations job, to say that some people do not get the COLA.

It should be made clear to people that the notch does not occur for everybody born before 1917. They do not all get a bonanza. The ones who get the windfalls are those who became 62 before 1979 and who worked well beyond age 62. The longer they worked, the bigger the notch. If everybody retired at 62, there would have been no notch. So a so-called notch-year baby who retired at 62 was not

ROBERT J. MYERS TESTIMONY @ pp 137 & 138
HERE

17. For a discussion on the record of these considerations, see U.S. Congress, House, Committee on Ways and Means, Subcommittee on Social Security, *Hearings on Decoupling the Social Security Benefit Structure, H.R. 14430*, 94th Congress, 2d session, June 18, July 23 and 26, 1976, pp. 77–78. This bill, then under consideration by the committee, contained the Ford administration's proposed changes to address the overindexing problem. Although the changes enacted by Congress the following year were different in a number of respects, application of the transition rules by age group was retained.

18. For support of this thesis, see minority views contained in House Report on H.R. 9346, p. 300. The statement suggests that the minority members of the committee had the impression that the dollar amounts of benefits that would be paid to new recipients in the future would not be lower than present levels. In fact, they stated that the benefits of future retirees would be higher than present levels.

19. None of the background committee prints leading up to the markups of the 1977 amendments by the House Ways and Means and Senate Finance committees or the reports by these committees to their respective bodies on their recommendations showed year-by-year benefits and replacement rates expected to arise before, in, and after the transition period. These documents largely skipped the years 19[illegible] through 1984, which constituted the transition period, in showing the projected future benefits and replacement rates under old and new law. Generally, such data were presented in five-year intervals, leaving little or no possibility for observation of a notch effect by the members of the committees or Congress.

20. Steven F. McKay, F.S.A., and Bruce D. Schobel, F.S.A., "Effects of the Various Social Security Benefit Computation Procedures," Actuarial Study no. 86, Office of the Actuary, Social Security Administration, July 1981, p. 13 (hereafter cited as Actuarial Study no. 86). This analysis showed that 73 percent of the men and 58 percent of the women who filed for retirement benefits in 1979 used the old method—that is, they had reached age sixty-two before January 1979. In effect, 27 percent of the men and 42 percent of the women had to use one of the five new sets of benefit rules enacted in 1977 because they were born after 1916. The two sets of rules that were used by the vast majority were the new indexing procedures and the transitional guarantee.

21. House Report on H.R. 9346. See table on p. 29 of the report, which shows that an estimated 43 percent of newly eligible retirees were expected to use the transitional guarantee in 1979 but only 8 percent in 1983.

22. Ibid. See discussion "Wage Indexing of Earnings," pp. 24–25.

23. Actuarial Study no. 86, p. 18.

24. In the eleven-year period 1975 through 1985—the period in which social security benefit increases have been tied directly to the rise in the cost of living—the largest benefit increases became payable during the three-year period 1979–1981. They were 9.9, 14.3, and 11.2 percent, respectively.

25. This description of these bills is largely based on the analysis of the language of H.R. 1917 by the Office of the Actuary of the Social Security Administration as

ABOVE INFORMATION SUBMITTED TO
COMMITTEE BY: AMERICAN ENTERPRISE INSTITUTE

Table M-4.—Old-Age and Survivors Insurance Trust Fund: Status, 1940-87

[In thousands. Calendar and fiscal year data appear in alternate months of the Bulletin. Data for interim years appear in table 15 of the Bulletin's 1986 Annual Statistical Supplement.]

Period	Receipts			Expenditures				Assets at end of period [9]		
	Net contribution income [1]	Payments from general fund of the Treasury [2]	Net interest [3]	Benefit payments [4]	Rehabilitation services for disabled [5]	Transfers to Railroad Retirement program [6]	Net administrative expenses [7]	Invested in U.S. Government securities [8]	Cash balances	Total assets [10]
Fiscal year: [11]										
1940	$550,000	...	$42,489	$15,805	...	...	$12,288	$1,738,100	$6,598	$1,744,698
1945	1,309,919	...	123,854	239,834	...	...	26,950	6,546,281	67,100	6,613,381
1950	2,106,388	$3,604	256,778	727,266	...	...	56,841	12,644,823	247,789	12,892,612
1955	5,087,154	...	438,029	4,333,147	...	-$9,551	103,202	20,580,491	560,511	21,141,001
1960	9,842,685	...	517,130	10,269,709	...	600,437	202,369	19,748,848	1,079,877	20,828,725
1965	15,857,212	...	586,237	15,225,894	...	435,638	300,283	18,765,724	1,414,761	20,180,485
1970	29,954,673	442,151	1,349,613	26,266,928	$1,239	578,818	474,035	30,106,913	2,509,443	32,616,355
1975	56,017,343	447,323	2,292,182	54,838,818	7,731	981,785	847,723	39,879,154	68,659	39,947,814
1977	68,894,809	613,902	2,286,888	71,270,519	7,502	1,207,841	992,737	35,397,620	-25,407	35,372,213
1978	74,046,779	612,927	2,151,741	78,524,092	6,461	1,588,664	1,086,186	30,955,085	23,179	30,978,264
1979	84,357,910	614,918	1,920,140	87,591,968	16,980	1,447,532	1,072,006	27,317,094	425,752	27,742,846
1980	97,607,645	557,037	1,886,219	100,615,304	11,090	1,441,988	1,159,659	23,565,572	1,000,185	24,565,757
1981	119,016,091	539,936	2,016,252	119,413,467	7,542	1,584,932	1,298,107	23,244,031	589,989	23,834,020
1982	124,246,412	674,715	1,708,114	134,654,629	6,158	1,793,280	1,474,003	11,921,518	613,706	12,535,224
1983	136,127,311	6,096,177	6,210,157	148,024,189	668	2,250,821	1,551,227	25,502,697	1,157,977	26,660,674
1984	158,685,629	124,514	1,918,513	155,824,605	6,054	2,404,002	1,585,237	27,223,772	345,817	27,569,589
1985	178,455,414	104,978	1,320,816	165,309,981	426	2,310,169	1,589,047	30,967,503	2,909,797	33,877,300
1986	190,336,362	2,293,264	2,700,791	174,339,838	...	2,585,101	1,609,026	36,947,976	571,402	37,519,378
1987	202,876,880	69,394	3,869,936	182,002,819	...	2,557,282	1,540,644	58,355,609	-90,867	58,264,742
1986										
September	16,910,232		29,718	14,780,086	...	...	116,280	36,947,976	571,402	37,519,378
October	14,892,554		13,071	14,836,782	...	...	116,373	36,891,709	580,142	37,471,851
November	13,813,104		19,792	14,826,178	...	...	129,233	35,855,764	493,573	36,349,337
December	16,066,041	69,394	1,613,245	14,872,023	...	...	144,994	38,698,517	382,494	39,081,011
1987										
January	18,156,166		18,361	15,079,486		...	150,186	41,496,193	558,231	42,054,424
February	16,316,928		22,439	15,225,132			144,381	42,682,001	343,301	43,025,302
March	16,797,735		25,831	15,170,907	...	...	108,137	44,693,183	-123,347	44,569,836
April	23,581,216		144,407	15,180,993	...	...	191,272	53,082,919	-159,716	52,923,203
May	16,294,439		111,549	15,631,927	...	...	99,881	53,773,054	-175,651	53,597,403
June	17,501,189		1,798,807	15,238,662	...	2,557,282	141,565	55,081,908	-121,773	54,960,135
July	16,445,166		22,697	15,285,577	...	...	153,781	56,161,866	-173,190	55,988,676
August	15,516,157		37,831	15,329,757	...	...	97,886	56,208,110	-93,087	56,115,023
September	17,496,186		41,906	15,325,396	...	...	62,977	58,355,609	-90,867	58,264,742

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[1] Beginning in 1983, includes contributions on deemed wage credits for military service. Includes payments from the general fund of the Treasury for tax credits on wages paid in calendar year 1984 and on net earnings from self-employment in 1984-89. Beginning in January 1984, reflects taxation of benefits.

[2] Appropriations from general fund to meet cost of benefits arising from deemed military wage credits and special age-72 benefits. Includes reimbursements (a) in 1947-52 and in 1967 and later, for costs of noncontributory wage credits for military service performed before 1957, (b) in 1972-83, for costs of deemed wage credits for military service performed after 1956, and (c) in 1969 and later, for costs of benefits to certain uninsured persons who attained age 72 before 1968.

[3] Interest and profit on investments after adjustment for interest on reimbursed administrative expenses. Net interest includes net profits or losses on marketable investments. Beginning in 1967, administrative expenses are charged currently to the trust fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in net interest. Fiscal year 1983 reflects $6,493 million and fiscal year 1984 reflects $1,732 million in interest on deemed wage credits for military service performed after 1956. Beginning in fiscal year 1983, net interest reflects interest on advance tax transfers and interest on reimbursement for unnegotiated checks. Fiscal years 1983-86 reflect interest on interfund borrowing.

[4] Beginning in fiscal year 1983, benefit payments reflect deductions for unnegotiated checks.

[5] Beginning in 1967, includes payments for vocational rehabilitation services furnished to disabled-child beneficiaries and disabled-widow and disabled-widower beneficiaries.

[6] The purpose of the financial interchange provided by the Railroad Retirement Act, as amended, is to place the trust funds in the same position in which they would have been if railroad employment had always been covered under OASDI-HI. Transfers include (a) interest from Railroad Retirement program to OASI Trust Fund on amount held to the credit of the trust fund, 1954-57, (b) principal and interest from OASI Trust Fund, beginning in 1958, and from DI Trust Fund, beginning in 1961, to Railroad Retirement program, (c) principal and interest from Railroad Retirement program to DI Trust Fund in 1959 and 1960 and to the HI Trust Fund, beginning in 1966. Payments to the trust fund from the Railroad Retirement program, indicated by negative expenditure figures, increase income and total assets; payments from the trust fund to the Railroad Retirement program, indicated by positive figures, increase expenditures and reduce total assets.

[7] Under the 1956 amendments, all HHS administrative expenses were paid initially from the OASI Trust Fund with subsequent reimbursements, plus interest, from the DI Trust Fund for the allocated cost of DI operations. For 1958-65, all OASI reimbursements for administration came from the DI Trust Fund. Beginning in 1966, the DI, HI, and SMI Trust Funds are charged currently with the expenses of their respective operations (including construction); all other costs (data processing, research, etc.) are paid initially from the OASI Trust Fund and included in subsequent allocation of total administration amount for all four trust funds. Includes income from sales of supplies, materials, etc. as an offsetting expense.

[8] Includes gifts. January 1987 includes $28,440 thousand and February 1987 includes $1,005 thousand from the Northern Mariana Islands Trust Fund to the OASI Trust Fund.

[9] Book value: includes net unamortized premium and discount, accrued interest purchased, and repayment of interest accrued on bonds at time of purchase.

[10] Total assets reflect amounts borrowed from the DI and HI Trust Funds in 1982 under the interfund-borrowing provisions of the law. Prior to January 1985, such amounts totaled $17,518,523 thousand. Final repayment was made in 1986.

[11] Under the Congressional Budget Act of 1974 (Public Law 93-344), fiscal years 1977 and later consist of the 12 months ending on September 30 of each year. The act further provides that the calendar quarter July-September 1976 is a period of transition from fiscal year 1976, which ended on June 30, 1976, to fiscal year 1977, which began on October 1, 1976.

Source: Daily Statement of U. S. Treasury; beginning in 1954, monthly and final Statement of Receipts and Expenditures of U.S. Government and unpublished Treasury reports.

For further information on data contained in table M-4, contact J. R. Nagel (phone: (301) 965-3037).

April 20,
1988

Dear Mr Leonard

I am writing you concerning the "Notch" situation. I was born Jan 24, 1920, and I am one of those who feel we are not treated right. I am getting much less in my Social Security check, I served in the Air force for my country almost 4 years, and had to take early retirement as my factory closed where I worked. I would be so grateful if somehow we could be given what rightfully ours. My living as a Senior citizen on my income for me and my wife isn't very much compared to the utility bills, Dr bills, and the cost of medication is all very high, and I have all of them I would be so grateful if you could please make something good come out of this situation.

Thank you
Arthur Collard
P.O. Box 133, Bonfield, Ill. 60913

April 8th, 1988

ROBERT J. LEONARD, ESQ.,
Chief Counsel,
Committee on House Ways & Means,
1102 Longworth HOB,
Washington, D. C. 20515

Dear Sir:

We wish to register our wishes and request that the Notch Legislation be passed this month.

We feel 10 to 12,000,000 people are being discriminated against because they were born between 1917 and 1921.

Why should they be penalized? IT ISN'T FAIR!!

Thank you.

Very truly yours,

John Daly
60 Parkway Ct
Westwood N.J. 07675
Soc Sec # 065-16-3274

Identical letters were also received from the following persons:

Evelyn DeCarlo, Washington Twp, N.J.
Anna Fehrman, Westwood, N.J.
Thaddeus F. Grud, Washington Twp, N.J.
Gabriel and Tina Martins, Westwood, N.J.
Katherine Peirson, Washington Twp, N.J.
Alexander and Eva Szabo, Westwood, N.J.

The Honorable George (Buddy) Darden
Member of Congress
Seventh District, Georgia

Statement for the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, Hearing on the "Notch" Issue, April 14, 1988.

I welcome this opportunity to discuss the "notch" issue with you. Both of my parents were born during the "notch" years, so I am familiar with the inequities and financial limitations placed on "notch" victims.

Millions of elderly Americans have been penalized by an unfair benefits formula, which pays senior citizens born in the 1917-1921 "notch" years less than those born before 1917. This obvious benefit disparity is made worse by the irony of its creation. While Congress tried to prevent using all Social Security funds to benefit a select group which had been doubly compensated for inflation, it ended up inadvertently discriminating against a large segment of the retired population.

In 1972, Congress decided to give Social Security beneficiaries an annual cost-of-living increase. However, this increase also affected the computation formula used for new and future retirees. At the same time, workers were receiving cost-of-living increases in their wages. Thus, new retirees received monthly payments which incorporated both their increased pay and increased retirement COLAs in the benefit formula. Had this system continued, benefits would have escalated to the point that many people received more in retirement benefits than they had earned while working. Under these considtions, the Social Security Trust Funds may have become insolvent.

By 1977, Congress had developed legislation which altered the computation formula for those born after 1916. However, implementing this formula meant that those who became eligible for benefits after 1978 would receive lower benefits than they would have under the previous formula. A transition formula, which provided for a phase-in of the new benefits, was established for those born between 1917 and 1921. Consequently those in this "notch" received less than they were allotted under the 1972 law, but more than the 1977 law allowed. Social Security payments decline gradually for those born before 1921. However, while the benefits formula is appropriate for new and future retirees, we have penalized "notch" victims in the transition.

Although the "notch" was unintended, the consequences are no less serious for the many senior citizens forced to live on reduced pensions. We must develop legislation to counteract the "notch" effect, and ease the financial burdens for already suffering elderly Americans.

Several bills addressing the "notch" problem have been introduced in the 100th Congress. I have cosponsored H.R. 1721, which I believe provides for a realistic phase-in of the adjusted benefit formula. Congress must act on this issue. We must prove our commitment to principles of fairness, and provide our older Americans with the support they have earned.

KIKA DE LA GARZA
15TH DISTRICT, TEXAS

Congreſs of the United States
House of Representatives
Washington, DC 20515

STATEMENT BY
E (Kika) de la Garza
Before the
Subcommittee on Social Security
Committee on Ways & Means
14 April 1988

Mr Chairman, thank you for this opportunity to discuss the notch issue. As all of us here today are aware this problem created by the 1977 Social Security Amendments, has fostered a large degree of lost faith in the Social System system on the part of those individuals born in the years 1917-1921. Certainly I know I have heard over the years from hundreds and hundreds of individuals affected by this change in the law.

The essence of these letters has been that the retirees feel they are being cheated out of Social Security benefits. The retirees are concerned because the benefits paid to them differ from those paid to people born in other years.

Indeed there is a notch between benefits for those born in or slightly before 1916 and those born in or after 1917. What I don't think is understood, however, is why -- something I think it is important to clarify.

Before I do so, however, I would like to say that today as we examine this issue I think what is most important is to look at the solvency of the Social Security Trust Fund. Equally as important is to make certain no one group of beneficiaries has been slighted or willfully overcompensated at the expense of others. Certainly this would be a terrible disservice to the system as well as to all current and future beneficiaries.

Now my recollection is that Congress in 1973 decided to index Social Security benefits to the cost of living -- in other words to give Social Security beneficiaries a cost of living increase every year. As explained to me, what no one apparently realized at the time was that when retirees received this raise also increased were the amounts in the benefit table used to compute benefits for new and future retirees.

Concurrently the workers whose future benefits would be based on this increased benefit table were also getting wage increases on their jobs with the result that new retirees began receiving benefits that reflected the same period of inflation twice -- through the increased benefit table and through increases in their earnings that had occurred at the same time.

This increase, combined with the high inflation of the 1970's meant that overall benefit levels increased far more than anticipated with, I understand, a system that was rapidly going broke.

For this reason the system was decoupled and the notch formula put into effect -- a formula intended to provide benefits which keep pace with wage increases over an individual's working lifetime as well as to keep pace with price increases once an individual retires.

This new formula, however, as was explained to me, was not by itself enough to solve the financing problem which is why in March of 1983 a Social Security financing bill was adopted that solved a long-term financing deficit of 2.09% of taxable payroll. In 1977 the long term deficit faced was over 8% of the payroll, four times as high, and caused primarily by the very high benefits from this flawed benefit calculation. As a result of this calculation benefits by 1977 had already gotten so high that the government could not afford to pay all future beneficiaries at that existent rate.

So when the new formula was put into effect in 1977, Congress lowered overall benefit levels by about 5 to 7 percent. This resulted in everyone who turned 62 after 1978 in receiving lower benefits than they would have previously received. The alternatives, however, were steeper tax increases or a bankrupt system, and that if memory serves me correctly is how the so-called notch inequity came about.

Today's examination of this issue will, I know, result in an objective assessment of the notch's impact on all beneficiaries. Both the short and long term soundness of Social Security will be weighed. Current and projected future trust fund reserves will be studied. In short, today's hearing I know will result in an assessment of what steps or what adjustments are necessary to lead to an equitable solution of this problem the end goal being a sound system for everyone -- both current beneficiaries and future recipients.

Thank you.

61491 Meadowlark Lane
South Bend, Indiana
April 17, 1988

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways & Means
U. S. House of Representatives
Room 1102
Longworth House Office Bldg.
Washington, D. C.
20515

Dear Mr. Leonard:

This letter is to voice our complaint about the injustice of the Notch 1917 Program.

Both my Husband and myself fall into this category, we were bo~~th born in~~ 1919. Also my Husband served in the Armed Forces overseas during World War 11 from 1942 to 1945. He gave his services to our Country, and now he is being denied his Social Security rights as well as my own because he was born in 1919. This seems grossly unfair. We both contributed from it's very origin. Now there are people that did not contribute as much as us but are getting more because they were born in the right years. This is discrimination.

We certainly hope that you can help rectify this situation, and we bless you trying to help us out.

Even if it can't be made re-tro active, can it not be that we can start getting what we should be?

Very truly yours,

Mary De Cola

Mrs. Joseph (Mary) DeCola
61491 Meadowlark Lane
South Bend, Indiana-46614

STATEMENT OF EDITH DETVILER AND AUDREY WEBB

Thank you for letting us speak at this hearing. My name is Edith Detviler, this is my sister Audrey Webb. We are from Morris, Minnesota.

Audrey was born March 4, 1916 and I was born June 17, 1917 — just 15 months apart, so I was the one unfortunate to be caught in the so-called "Notch years."

We have been inseparable for most of our lives. The only time I can recall being apart was when I got married, and left Minnesota to go to California. Audrey followed me 2 years later. Dad called us the siamese twins, he always said, where you find one you will find the other.

When I was 40, there were problems in the home and I was forced to find work. Just being a housewife during that time, I had no job skills. My sister, as can be expected, went job hunting with me.

A friend of ours, who was a foreman at the Walnut Growers Association, said we could find work at Pacific Press, but it was a salt mine, which we found out in short order. We met some very nice people so it wasn't all bad.

We hired-in on October 8, 1957. This was a paper house making magazines such as Time, Newsweek, People and numerous other publications. A very laborious job consisting of lifting literally tons of paper a day. We fed up to five pockets each, in case one pocket would go dry, the machine would jam up and you were in big trouble. A very demanding and fast paced operation at the rate of 10,000 magazines an hour. On a good day, it could average considerably more.

For the most part we worked side by side in the same job, receiving the same wages and paying the same amount into Social Security until our retirement 25 years later on October 8, 1982.

Three months before we retired we applied for our Social Security. We sat at the same desk, talked to the same counselor. She at no time mentioned the "Notch years" but said Audrey might get a little more since she worked until she was 66.

When we received our benefits and found out there was more than $100 difference in our checks, Audrey was as upset as I and offered to divide the difference with me because she thought it was so unfair. I politely refused. The fault was certainly not hers.

Today my sister receives $155 more a month than I. This is proof of the big difference the "Notch years" can make in our Social Security benefits. Considering how hard the work was, it makes it all the more difficult to accept the unfairness in this situation. My contribution to the job and Social Security should have treated me as fairly as my sister.

What makes me angriest is that for the last 4 years of my employment, Social Security taxes were deducted from my paycheck even though these earnings would never be used in figuring my Social Security benefits. I certainly would not have been stupid enough to put in all those long, back-breaking hours and work all the available overtime and weekends if I had known I was being given no Social Security credit for them. This adds insult to injury.

It seems we have to plead abject poverty to get a fair share when the benefits are just paid out with no questions asked to those born before 1917. It is humiliating and a gross discrimination, we have our pride too. We are not asking for a hand out. When we signed up for Social Security I thought everyone would benefit fairly from this program, but it seems this is not the case. Why do we have to prove we need it, those born before 1917 don't have to.

In the six years since our retirement, my brother-in-law Byford Webb and I have written to several people in government. We have received reasons why the "Notch years" was imposed, but not much interest in trying to correct it.

So many people are kept in the dark. Why isn't there more honesty concerning this miscarriage of justice. Just last month, one of my neighbors saw the write-up about Audrey and I in Mr. Roosevelt's newspaper. She called me very upset. Her husband had just retired and did not know anything about the Notch. She then called Social Security and got the run around just the same as I did when I first applied. Why are they so afraid to admit the facts?

Mr. Chairman, the Notch has already cost me about $10,000. Under Congressman Ford's bill I would only get $1,000 in retroactive money and less than half of the $155 a month the Notch costs me. At that rate, it'll take me a long time just to get back the $5,000 in taxes I paid to Social Security for my last four years of work. I do not see any good reason why I should settle for less than I am due and I am willing to fight for the principle of fairness even if I never get a penny. But I know there are needy people who need some justice now. So if we can get half-a-loaf now, then I'll accept it for those who need it more than me.

So Mr. Chairman, don't delay, give us as much justice as you can -- and do it quickly.

Thank you for listening to our story.

NOTCH EXAMPLES

Edith Detviler and her sister, Audrey Webb of Minnesota
Members of the National Committee to Preserve Social Security and Medicare

I. Edith Detviler, born 1917, is a "notch" baby. Her sister, Audrey Webb, is not "notched". Audrey was born fifteen months earlier in 1916, the last pre-notch year.

	Birthdate
Edith	June 17, 1917
Audrey	March 4, 1916

II. On October 8, 1957, Edith and Audrey, who had been homemakers, started jobs as bindery workers in Southern California. For the next twenty five years they worked together every day, in the same heavy labor job, for the same pay, until they retired together on October 8, 1982.

Edith's work record shows that she earned about four percent (3.9%) more than Audrey primarily because Edith worked more overtime since she was single.

	Total Taxed Wages (1957 to 1982)
Edith	$172,915.09
Audrey	$166,228.70
Edith's Wage Advantage	+$6,686.39
Percent Difference	+3.9%

III. In the summer of 1982, Edith and Audrey went to the Social Security office to claim retirement benefits. They were told that Audrey's check would be slightly higher because she worked for 18 months after her 65th birthday. The Notch effect was not discussed.

Instead of a small difference in benefits, Edith's October 1982 benefit rate of $512.60 was $111.80 less -- or 17.9 percent less -- than Audrey's $624.40. Due to the fact that Edith's post-age 61 earnings are not credited under the transition benefit formula and the compounding effect of subsequent cost-of-living-adjustments, both the dollar and percentage differences have grown so that Edith now receives $155.00 less -- or 20.3 percent less -- per month than Audrey.

	1988 Net Monthly Benefit
Edith	$607.00
Audrey	$762.00
Edith's "Notch" loss	$155.00
Percent Loss	20.3%

IV. If Edith had been Audrey's twin sister, rather than born fifteen months later, Edith's net monthly benefit would be $793 or $196 more than the $607 she currently receives. And if Edith's benefits had been computed under the same rules as Audrey's, Edith would receive a net monthly benefit of $752 which is $10 less than Audrey's monthly check.

V. S. 1830/H.R. 3788 would restore $76 of the $155 "notch" loss that Edith has suffered. Audrey's benefit would remain unchanged.

	Net Monthly Benefit		Dollar
	Current	S. 1830/H.R. 3788	Change
Edith	$607.00	$683.00	+$76.00
Audrey	$762.00	$762.00	-0-
"Notch" Loss	$155.00	$79.00	
Percent Loss	20.3%	10.3%	

(GAJ/DETVILER-b) 04/06/88

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Composer Member of *The Dramatists Guild;* Active & Voting Member of *NATAS.*

April 18, 1988

Congressman Andy Jacobs, Jr.
Longworth HOB #1533
Washington, D.C. 20515

APR 21 1988

Dear Honorable Jacobs:

I do wish to thank you for the Notch Hearing of April 14, 1988, and especially for inviting Anthony Purcell (PA), Daryl Cooper (IO) and Julian Stern (FL) to testify on behalf of the Notch Babies as well as the VFW, the Grey Panthers and the National Committee. These are the important ones who are MOST-HONEST in their opinions, in fairness and can be trusted to give the TRUTH. What more can we have but the TRUTH! I for one would not have been writing to you and every senator and congressman THROUGHOUT THE ENTIRE COUNTRY for the past 5 1/2 years all at my own expense and time for correction if it were not the truth. I will always 'fight' for the so called "underdog" and at this time it happened to be all those born between 1917 -21 who turned out to be the strong force of our great country making it NUMBER ONE THROUGHOUT THE WORLD working their way through the Great Depression and FIGHTING and SERVING in World War TWO.

Congress and others may say that supplementation is needed from private retirement plans, savings and retirement work - but there are MILLIONS who could not afford to put away each year for retirement. Some who did, lost out as firms they worked for, went out of business and zero return was given besides the loss of a job. The IRA is relatively new, and millions could not take advantage, because it was unheard of while they were working, or when they did hear of it, could not afford the price. With the prices of things today, food-clothing-shelter, Mr/Ms American cannot afford it. One must be realistic. Others are not strong enough to work, IF THEY COULD FIND IT. Many are disabled and in nursing homes. How can they afford to pay their way? One cannot look at this country with 'rose-colored-glasses' and hide the TRUTH!

I am sure that you will agree that the BIGGEST MISTAKE MADE, going back to 1977, was when it was decided by Congress and the Senate to collect Social Security Funds from this group of people, and NOT-GIVE-CREDIT-BEYOND-THE-AGE--OF-**SIXTY-ONE!** There should have been a Ten-To-Fifteen-Year-Phase-In-Period. The other mistake in most recent times is OUR MONEY being used, or RAIDED to pay cost of litigating the labor dispute between the Social Security Administration and the American Federation of Government Employees. Also included in this, we can add that over $4 million dollars of "our" fund has gone to pay for trips to Acapulco and hours of unsubstantiated overtime pay, also Harvard seminars for union officials. These funds should be kept separate and not used in the balancing of the U.S. budget. It gives a FALSE report.

One senator, on record, at the Senate Hearing in February made an unnecessary statement that we were, "A bunch of GREEDY OLD PEOPLE that should be ashamed because of wanting to bankrupt the S.S. Trust Fund." It is the ABOVE PARAGRAPH that is bankrupting this fund. No we are not *Greedy Old People,* we want what is rightfully ours as we put in from the beginning. If one puts into a bank, one collects interest plus the principal. Perhaps in going back to the early days of Social Security, one should have been required to put into a bank interest account a certain fee each month (including employer) in the name of the employee with the RESTRICTION that they could not draw until reaching the age of 65. This would have been similar to the IRA of Today. Again, I should like to thank you for the hearing and expect GOOD-RESULTS to come from it. Remember there are about twenty-notch bills out at the present time.

I should like to request from you, from the Congressional Records, a COMPLETE REPORT on the hearings of the day. Thank you and Blessed be with UNIVERSAL LOVE, Andy Jacobs, Jr., I am

Albert De Vito

Albert DeVito
(Notch Leader Throughout the U.S.A., and
Defender of Human Rights)

April 14, 1988
Statement of Rep. Barney Frank
Before the Subcommittee on Social Security

Mr. Chairman, I would like to thank you for holding this hearing and giving me the opportunity to testify today. With the completion of the GAO report we are in an excellent position to examine fully the Notch issue. I have been seeking legislative relief for the victims of the Notch since I first became aware of it during the 97th Congress, which was my first term in office. I am convinced that the law which created the Notch is one of the most unfair laws on the books, and I hope that today's hearing will generate enough momentum to finally enact legislation which will alleviate its unfair impact.

I believe that one of the principal obligations of those of us in government is to attempt to address inequities in our society, though of course we must always be aware of the degree to which we can afford to do this. So, in regard to the Notch there are two basic questions we must ask: Is there an inequity? Can we afford to alleviate it? I believe the answer to both questions is yes.

On the first point, I would like to say that the GAO report (which points out that Congress did intend to reduce at least the percentage rate at which recipients' pre-retirement earnings were replaced in order to prevent the threatened insolvency of the Social Security Trust Fund in the 1970's) may be misused by those who believe that the current Notch situation is exactly what Congress intended. The report makes it clear that, in reducing the replacement rates, Congress did not anticipate that recipients subject to the new formula would be receiving lower nominal dollar amounts than those covered by the old formula. The fact that in many cases they do is a result of an unanticipated inflationary trend in our economy in the late 1970's and the omission of post-age 62 earnings from the benefit calculation under the new formula. In other words, a flawed formula and flawed economic assumptions have put us in a position where there are considerable disparities in actual dollar benefits depending on which formula applies.

These disparities have been well documented by witnesses at Aging Committee hearings chaired by our colleague Mr. Roybal. Over and over these witnesses have pointed out that they are receiving a smaller amount of benefits compared to people with similar work histories solely on the basis of their birthdates (something over which they obviously have no control). It seems clear to me that this is an unfair situation, and I don't see how we can ask these people to accept the explanation that they aren't actually receiving less money, but that the people born before them are receiving too much. The result is the same; an inequity exists. And, while government cannot rectify every inequity that exists in our society, we ought to at least address those to which the government's own policies may have contributed. The Notch is clearly one such case.

As I mentioned, we must also look at the cost of legislation to reform the Notch. According to the GAO report, in 1991, the Trust Fund will have a surplus somewhere between $150 - $320 billion, and by 1996 close to $700 billion. With the surplus in those ranges, it seems clear to me that we could enact legislation (perhaps along the lines of Mr. Roybal's or Senator Sanford's bill, which have estimated costs in the $70 - $85 billion range through 1996) which would address this inequity without compromising the future integity of the Trust Fund. In fact, the GAO report indicates that, if the economy grows only moderately well over the next decade, these more modest Notch reform proposals would leave the surplus well within the safe range and much higher than it is at present.

Whether we use the exact formula contained in one of these bills is less important at this point than moving ahead with something. The good prospects for the Trust Fund into the next century make it evident that we can afford to alleviate the problems caused by the Notch, and the unfair treatment to which the victims of the Notch are subjected means that we can't afford not to.

Mr. Chairman, I would like to thank you again for holding this hearing, and to urge you and the other members of the subcommittee to move forward with one of the bills being considered today — or some other appropriate Notch reform proposal — as soon as possible so that we can finally alleviate this unanticipated inequity.

Statement of Congressman Dean A. Gallo
Submitted to the Subcommittee on Social Security
Ways and Means Committee

April 14, 1988

MR. CHAIRMAN, I first want to commend you on holding this important hearing and for giving persons affected by the Social Security "notch" issue this opportunity to express their deep concerns on this issue.

For too long, seniors affected by this disparity in Social Security benefits have felt their voices of concern were falling on deaf ears. It is important that we face this issue head on and in the open.

In both the 99th and the 100th Congresses, I have cosponsored legislation, H.R. 1917, that would make Social Security benefit payments fair to everyone by eliminating the disparity that affects persons born between 1917 and 1921. I am also a cosponsor of Rep. Harold Ford's proposal to remedy this situation, H.R 3788, that provides for some retroactive benefits and restores current and future benefits to equitable levels because it appears to have a better likelihood of passing.

While there are differing views on what steps should and can be taken to restore fairness to the benefits of "notch" babies, there is no question that action should and must be taken.

The report of the General Accounting Office, that serves as the basis for your hearing today, confirms the fact that benefit disparities exist and lays important groundwork for our consideration of proposals to remedy this inequity.

I believe that, at the very least, benefits for these persons should be restored prospectively. Further, I believe we must take a hard look at the past benefit losses of these individuals and, within the means available to us, make additional adjustments.

Mr. Chairman, I appreciate the opportunity to submit my statement to your Subcommittee and look forward to working with you on this issue.

Thank you.

Dean Gallo

April 13th, 1988

Andy Jacobs, Jr., Chairman
Subcommittee on Social Security #8
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D. C. 20515

THE NOTCH ISSUE

Dear Mr. Jacobs,

We ask for your assistance to please end the discrimination of this group of people in this so called notch category.

We have worked hard our entire lives in jobs that did not provide pensions and now my husband is being denied a portion of his Social Security because of the horrendous lack of planning by our Federal Government. In reality the government has had the use of OUR money these many years; back pay and interest should be a factor in compensation for the aforesaid.

To eliminate a group of people from Social Security payments was an unknown factor to us and, undoubtedly, to the vast majority of the people in this notch group. To have done this as an adjustment for the mistakes of our elected officials was ludicrous; this deprivation is now lugubrious and most distressful.

My husband, born January 10th, 1919, worked as a barber except for the years he joined the Navy to fight for freedom and a better life. His barbering was in days of short hair and cheap prices. In his late years the new look arrived in mens hair cuts, he, as others like him in this age bracket lost out. The new look wanted young "stylists" to "shape" their hair.

Rheumatoid arthritis, a chronic disease characterized by inflammation of the joints, extreme pain and accompanied by marked deformities, was taking its toll on his body. At the age of 64 he was forced to "retire" because of medical inability to control the pain in his ankles, hands and shoulders. He was denied disability S.S because he was able to lift ten pounds. What this had to do with his inability to stand for hours remains beyond our comprehension.

My own work provided meager pay. Our judgement in choice of work turned out to be a major mistake, entering our fields at the decline of there particular era.

My husband is not able to even dress himself because of pain and immobility. I must take care of his every need, my own needs and all the work involved in existing; I, myself, have numerous health problems, including phlebitis.

Adding insult to injury, the lack of these additional S. S. funds are depriving us to remain living in this town of our birth; to give up your home, your friends, your church, why do **YOU..OUR GOVERNMENT.. DO THIS TO US, WE OF LOW INCOME.** The rise in medical insurance, in medicare, lack of medicare coverage cause incalcuable hardships to those of us in our circumstance.

Please put an end to this horrendous homicidal "dogma", a doltish act instituted without regard to practicability by "our" government! Thank you.

Very truly yours

Alice Kauneckas Graff

Alice Kauneckas Graff

Mrs. Robert E. Graff
807 Parkway Street
Riverhead
Long Island 11901

April 13th, 1988

Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D. C. 20515

THE NOTCH ISSUE

Dear Mr. Leonard,

I ask for your assistance to please end the discrimination of this group of people in this so called notch category.

I have worked hard my entire life in a job that did not provide a pension and now am being denied a portion of my Social Security because of the horrendous planning of our Federal Government. In reality the government has had the use of OUR money these many years; back pay and interest should be a factor in compensation for the aforesaid.

To eliminate a group of people from Social Security payments was an unknown factor to myself and, undoubtedly, to the vast majority of the people in this notch group. To have done this as an adjustment for the mistakes of our elected officials was ludicrous; **this deprivation is now lugubrious and most distressful.** Thank you for your attention.

Very truly yours,

Bob Graff

Bob Graff

Mr. Robert E. Graff
807 Parkway Street
Riverhead
Long Island 11901

ROBERT J. LEONARD, CHIEF COUNSEL
COMMITTEE ON WAYS AND MEANS
U. S. HOUSE OF REPRESENTATIVES
ROOM 1102
LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON,D. C. 20515

DEAR MR. LEONARD:

SUBJECT:SOCIAL SECURITY NOTCH BABIES

BOTH MY WIFE AND I ARE "NOTCH BABIES", BEING BORN IN 1919 AND 1920. EXCEPT FOR THE INEQUITY IN OUR SOCIAL SECURITY PAYMENT, WE FUNCTION EXACTLY AS "NON-NOTCH BABIES""

WE PAY TAXES AT THE SAME SCHEDULE

FOOD,UTILITY, AND LIVING EXPENSES ARE THE SAME

AUTOMOBILE AND TRANSPORTATION COSTS ARE ALIKE

MEDICAL COSTS ARE THE SAME FOR IDENTICAL SERVICE

OUR VOTING RIGHTS AND PRIVILEGES ARE NO DIFFERENT

WE BELIEVE OUR SOCIAL SECURITY BENEFITS SHOULD NOT BE LOWER FOR WE HAVE NO CONTROL OVER OUR BIRTH DATE. NOTCH BABIES ARE NOT FOREVER! GIVEN AN AVERAGE LONGEVITY OF 75 YEARS, THE YEAR 2000 WILL SEE VERY FEW OF US LEFT.

PLEASE CORRECT THIS INEQUITY.

YOURS TRULY

MB Herskovitz
M. B. HERSKOVITZ

107 BALBOA CIRCLE
OAK RIDGE,TN37830
APRIL 15, 1988

DORINE M KIRCHNER
RT 1 BOX 43
BONFIELD IL 60913

Bonfield Ill
april 22 1988

Robert J. Leonard.

I am writing to you in regard of the Notch issue. Which I happen to be one born in 1921. Would you please tell me how come there is in social security benifits a big error for those people born from 1916 to 1921. I sure dont think we are being treated fair. Where has that money gone too?. or was it never ment to be, but I do think it is high time they start treating everybody fair with social security. The people that work there fingers to the bone, and has paid in when they started social security get nothing and then there is these people that has paid in very little, they get it all. I would just like to know where all the money that my husband. paid into social security will go to, because he passed away before he could draw, and the social security office at Kankakee. Ill. Told me I couldn't have it. now would you please tell me who is going to get it? I suppose some lazy person who didnt pay anything in :

Hoping for a answer

Dorine M Kirchner
Box 43 RR1 Bonfield Ill 60913

STATEMENT OF CONGRESSMAN JOE KOLTER (PA-4), BEFORE THE COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON SOCIAL SECURITY, CONCERNING THE GENERAL ACCOUNTING OFFICE REPORT ON THE "NOTCH" ISSUE, APRIL 13, 1988.

Chairman Jacobs and Members of the Social Security Subcommittee, I commend you for your leadership roles in making today's much needed hearing a reality. In no other manner can the issue of the Social Security "Notch" be properly addressed.

There exists today a great disparity in the amounts paid to retired Americans under Social Security. The sole determinant of this unjust discrimination against certain beneficiaries is the year of birth. No consideration is given to the fact that those born in the "notch" years paid into the system according to the same formula as those who were born prior to 1917.

In 1977, when legislation was enacted that created the "notch," it looked as though outlays to beneficiaries must be cut in order to save the Social Security System. Today, however, it is the determination of myself and many of my colleagues that there is sufficient capital in the Social Security Trust Fund to correct the disparity in monthly payments without jeopardizing the fiscal stability of the system.

With growing awareness of the "notch" injustice, support is building for legislation designed to remedy the situation. As an original cosponsor of H.R. 1917, I feel strongly that those born during the "notch years" are being unfairly treated and deserve to be brought into pay equity with their fellow beneficiaries not affected by the decreased rates of compensation.

Many attempts have been made to downplay the gravity of the "notch" issue, but the reality of the situation cannot be ignored. There are millions af U.S. citizens, including many of my constituents in Pennsylvania's Fourth District, who are retired and receiving lower monthly benefits than they earned and were led to believe when they paid into the system what they would receive upon retirement. We, as the elected representatives of these Americans must do what is right by passing legislation to correct this disparity.

There are those who say that the difference in benefit amounts for the two groups of retirees is minimal. On the contrary, the gap between those affected by the old law and those affected by the "notch factor" can be strikingly significant. For instance, there is a case of two sisters who began work at a printing plant on the same day and earned the same wage before retiring twenty-five years later. One sister is affected by the "notch" and the other is not. The "notch" sister is receiving $152.00 less per month than the other sister. To a retired person, $152.00 per month can make a great difference when struggling to pay for groceries, rent and utilities. The time has come to end this national disgrace.

Once again, I thank the Social Security Subcommittee for their decision to hold this public forum.

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

ROBERT J. MRAZEK
3RD DISTRICT, NEW YORK

COMMITTEE ON
APPROPRIATIONS
WHIP AT LARGE

April 27, 1988

Representative Andy Jacobs, Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
1102 Longworth Building
Washington, DC 20515

Dear Mr. Chairman:

First, I would like to extend my thanks to you for sponsoring this hearing on the General Accounting Office's report on the Social Security "notch" issue, and for providing me with this opportunity to submit a statement.

Few matters have generated as much controversy over such a prolonged period of time as the Social Security "notch" issue. Since Social Security retirees first became aware of the "notch" inequity in 1983, it has consistently remained at the top of the list of issues about which residents of New York's 3rd Congressional District express their views.

I want to take this opportunity to once again express my full support for a legislative solution to the unfairness of the Social Security "notch." More than one-third of the House has cosponsored legislation to remedy the "notch." A number of field hearings have been held on the "notch," including one in my own district at which several hundred citizens vented their great frustration over the lack of progress in resolving this injustice.

I have always believed that if a "notch" bill were sent to the floor for consideration by the full House, it would pass by a wide margin. Now is the time to act on this most important issue. The "notch" is an issue which deserves consideration by the full House, and will not simply go away.

To conclude, I want to thank you again for agreeing to sponsor a hearing on the "notch," and I urge you to hold hearings on the legislative proposals pending which would resolve this inequity.

Sincerely,

Robert J. Mrazek

Robert J. Mrazek
Member of Congress

RJM:sgp

80 FOREST AVENUE, GLEN COVE, N.Y. 11542 (516) 671-8300 • 143 MAIN STREET, HUNTINGTON, N.Y. 11743 (516) 673-6500

STATEMENT BY ROBERT J. MYERS PRESENTED TO THE SUBCOMMITTEE ON SOCIAL SECURITY, COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, ON THE REPORT OF THE GENERAL ACCOUNTING OFFICE ON THE "NOTCH" ISSUE, APRIL 14, 1988

Mr. Chairman and Members of the Subcommittee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934-70, being Chief Actuary for the last 23 of those years. In 1981-82, I was Deputy Commissioner of Social Security, and in 1982-83, I was Executive Director of the National Commission on Social Security Reform.

The Social Security Amendments of 1977 drastically changed how benefits are computed. Otherwise, their amounts would have eventually exceeded preretirement pay. The old benefit-computation method was continued for persons reaching age 62 before 1979 (born before 1917). The new method applied for those reaching age 62 after 1978 (born in 1917 and after). An alternative method, if more advantageous, was made available to those born in 1917-21. The result was that somewhat different benefit amounts occurred for persons with similar earnings histories who were born before 1917 as against those born in 1917 and after. In some cases, these differences were relatively small. But, in other cases, rather large differences have occurred.

These differences are often referred to as the "Social Security notch". It should be noted that many other types of notches occur in an insurance program such as Social Security that has specific qualifying requirements -- e.g., for the person who is one quarter of coverage short of being fully insured as against a person who just meets the requirement.

The General Accounting Office has recently issued a report on the notch issue -- "Social Security -- The Notch Issue" (GAO/HRD-88-62). This is an excellent, comprehensive report. On the whole, I believe that it is fair to say that the report concludes that the notch issue has certain unfortunate aspects, but that those who appear to be most adversely affected by the notch are not really being unfairly treated as compared with those born in later years. Although the GAO report does not support any specific notch legislation, it clearly seems to imply the reverse -- namely, that no remedial legislation is necessary or desirable.

I believe that the GAO report is an excellent, objective analysis, and I support its findings and general conclusions. I do, however, go somewhat more strongly in the direction that no legislative changes at this time (or hereafter) are desirable. Different action in 1977 or shortly thereafter would, in hindsight, have been preferable -- not to have given larger benefits to those born after 1916, but rather to have prevented the windfalls which occurred for those born before 1917 who worked substantially beyond age 62.

It was known during consideration of the legislation in 1977 that a notch would occur as between those born before 1917 and those born later, but it was not expected to be very large. I argued then that the same approach in the computation of benefits should be used for earnings after 1978, regardless of the year of birth. Such action would have largely eliminated the notch. Unfortunately, the Social Security Administration, because of problems with antiquated computers, argued for treating the two groups differently -- and so we have the notch.

The economic experience after 1977 made things worse than predicted. The difference in benefits was very small for people retiring at age 62. However, for persons retiring at age 65, those born in 1916 now receive as much as $100 per month more than those born in 1917 who have similar earnings histories.

This situation naturally seems unfair to those born after 1916. The real problem, however, is that those who are born earlier receive "windfalls". Those born after 1916 are equitably treated and do receive proper amounts (far more than "actuarially purchased"). It would be difficult to decrease benefits for those who receive "windfalls", both from a public-relations viewpoint and from an administrative standpoint. This is so even if the reduction were done "painlessly" and gradually -- for example, by withholding future cost-of-living adjustments in benefits until the "windfall" is recovered. However, if benefits were to be increased for everybody born after 1916, the program would cost very much more than it now does, and additional financing of a substantial nature would be required.

One erroneous view of the notch is that those born in 1917-21 are worse off than those who were born later. This is not true. The benefits for those two groups are comparable. If anything, those born in 1917-21 have an advantage because of the availability of the special alternative computation method.

Yet another error made by those who criticize the notch situation is when it is stated that all persons born in 1917-21 have much lower benefits than those with comparable earnings records who were born before 1917. This is not true for similarly situated persons who retire at age 62 -- and about half of the beneficiaries do claim benefits at that age -- because in this case the benefit differences are very small.

The fact remains that persons born in 1917 and after do receive benefits which are at a reasonable level -- and at the level in relative terms as against previous earnings that Congress determined desirable for all future retirees over the years. It is unfortunate that some people -- those born before 1917 who worked well beyond age 62 -- get "windfalls". However, the solution is not to pay more "windfalls" to yet other persons, all at the expense of younger taxpaying workers. For further discussion of this subject, may I refer to an article contained in the Congressional Record for May 6, 1987 (page H3246) that I wrote jointly with Robert M. Ball.

I should like to present specific data on the notch situation. Table 1 gives illustrative figures for men -- and, in most cases, applicable also for women -- who had maximum creditable earnings in all past years (after 1950) and who retired, alternatively, at age 62 or age 65 at the beginning of the year. Figures are shown for various years of birth (or, in other words, according to year of attainment of the specified retirement age). The line between the 1978 and 1979 rows in the age-62 columns and the line between the 1981 and 1982 rows in the age-65 columns separate the notch group (and later ones) from the pre-notch group.

Considering the benefit payable currently in 1988 for persons retiring at age 62 -- i.e., the initial benefit increased by all the applicable COLA's -- there is the intended gradual phase-down from the 1916 births to the later ones. In fact, the current benefit is slightly larger for the 1917 births than for the pre-notch 1916 ones. A low is reached for the 1921 births (year of retirement 1982), and then a gradual rise occurs.

This latter trend -- for years of retirement after 1982 -- is explained as being due to the long-run tendency under the Social Security program for benefits awarded to be somewhat higher from year to year because of generally rising wages. And further, when the benefit awards of previous years for persons with the same relative earnings histories are increased for COLA's subsequent to award, the resulting current benefit amounts will still be lower than for awards of the current year, because wages generally rise more rapidly than prices.

As a result, one would expect that, if the benefit structure were reasonable and equitable, the current benefit (that payable in early 1988) for retirement at a particular age for persons with the same relative earnings record would increase gradually from that for long-distant past years of retirement to that for the current year. This is exactly what is shown in Table 1 for the current benefit for retirement at age 62 for year of retirement 1972 up to year of retirement 1978 (i.e., from $505.10 to $660.50) and for year of retirement 1982 up to year of retirement 1988 (i.e., from $594.10 to $686.70).

The difficulty is that a correction of the faulty computation method of the 1972 Act was necessary. If this had been done abruptly, the benefits for the 1979-83 birth cohorts (especially those of the 1979-81 ones) would have been even lower than under present law, but then there would have been the proper gradual upward trend in the current benefit for year of retirement 1979 up to year of retirement 1988.

The result would have been an even larger notch between the 1916 and 1917 births, but this was prevented by the phase-in provisions adopted in the 1977 Act. Thus, those born in 1917-21 have been treated significantly better than pure theory would have called for when the flawed benefit-computation method under the 1972 Act was corrected in 1977. Or, in other words, these individuals are better off than they would have been if the benefit-computation procedures in the 1972 Act had been proper ones. Again, the real problem is the windfalls which have occurred for those born before 1917 who worked beyond 1978 at substantial earnings.

When, in Table 1, we consider persons retiring at age 65, a quite different picture emerges. As was stated earlier in my testimony, the current benefit increases sharply as the year of retirement becomes later than 1972 -- the effect of the faulty benefit-computation method introduced by the 1972 Act -- until peaking for retirement in 1981 (year of birth 1916). Then, a sharp drop occurs for retirement in 1982 (year of birth 1917), with further decreases for the next three years of retirement (births in 1918-20), until again a slow rise occurs for each later year -- reflecting the aforementioned long-run trend of benefit amounts.

Thus, the presence of the notch is clearly indicated -- but only for those born after 1916 who worked well beyond age 62. Quite naturally, the notch is much larger for persons who retire at ages later than age 65 than for those who retire at that age.

Table 2 presents data similar to that in Table 1, but for an average-wage person, instead of a maximum-wage one. The same general results occur -- no sizable differences in the current benefit payable for retirement at age 62 in different years, but rather substantial differences for retirement at age 65 between those who attained age 65 in 1981 as against those who attained age 65 in the next few years.

But, once again, the trend appears that the current benefit rises sharply as the year of retirement becomes later, until year of retirement 1981. Then, there is a gradual fall until year of retirement 1985, and thereafter a steady increase occurs -- as will also be the case for years after 1988 as they occur.

The National Committee to Preserve Social Security and Medicare bases its arguments to pay larger benefits to those born in 1917-28 by considering figures like those in the last column of Table 2. But it does so with a certain amount of "tunnel vision", because it considers only those born in about 1912-16 (retirements in 1977-81) as having "proper" benefits and ignores what will be the case for those born after 1930 (retirements after 1995). It then supports a proposal (S. 1830 and H.R. 3788) that would "fill in the gap" for the 1917-28 births at a level of benefits that would be at about the same current level as for 1911-13 births (but still below that of 1914-16 births).

This looks good if one does not look too closely. Actually, the result would be that births before 1911 (i.e., in the last column of Table 2, years of retirement before 1976) would be getting smaller benefits than later births. Why should those who retired at age 65 before 1976 get less -- as they do -- than persons who retired at age 65 in, say, 1976 ($635.60) if persons who retired at age 65 in 1982-1993 are to be raised to this level, as the National Committee now urges? Or, later, when the births after 1928 retire at age 65 with higher levels of benefits, should there be costly changes made to increase all benefits for those born earlier? The answer is, of course, "no" in both cases, because it is the nature of the system to provide gradually increasing benefits for the same situation as to retirement age and earnings level as the years go by.

Table 3 focuses more closely on the situation for a person born in early 1917 as against one born in late 1916, both of whom have the same earnings record and are only a few days apart in age. Different retirement dates, as well as two earnings histories, are considered. The difference in the initial benefits is virtually negligible for retirement at age 62 for both the average-wage and maximum-wage cases. As the date of retirement becomes later, the difference (or notch) increases significantly, rising to almost $150 per month for the average-wage case and $200 for the maximum-wage case (for retirement at ages 68-70). In my view, these differences are not unfair discrimination against the person born in 1917, but rather an undue windfall for the person born in 1916.

Table 4 examines the situation for persons born in late 1921 (the end of the so-called notch-baby period) as against that for persons born shortly afterward -- in early 1922 -- for various dates of retirement and for two earnings levels. The differences in the initial benefits are virtually negligible in all instances. This shows that those born in 1917-21 are not discriminated against when compared with those born after 1921.

Probably the best method of analyzing whether the benefits payable to those born in 1917-21 are inequitably low is to examine replacement rates for different ages at retirement, according to year of retirement. The replacement rate is the initial benefit annualized and expressed as a percentage of the earnings in the previous year.

Such rates are shown in Table 5 for persons with average earnings and with maximum creditable earnings. Figures for the latter are subject to limitations, especially for years before 1980, when sizable ad hoc increases in the maximum taxable earnings base occurred. Thus, relatively sharp drops in the replacement rate occurred at times (e.g., from 1973 to 1974 and from 1979 to 1980) that were solely due to the denominator (the earnings base) increasing much more than had been customary.

Examining the data for the average-wage person, we see great stability in the replacement rate for retirement at age 62 -- namely, rates of about 33-34% in all years. For retirement at age 65, the rates for those retiring in 1985 and after (born in 1920 and after) are level at about 41%, which is somewhat higher than for those retiring in 1975 or before. The rates for those retiring in 1976-81 rise steadily -- and unduly -- evidence of the windfall situation mentioned previously. Then, the windfall element is gradually transitioned out for those retiring in 1982-84.

This analysis clearly shows that a gradual and reasonable transition from the windfall situation for those born before 1917 who retired at age 65 did occur for those born shortly thereafter who also retired at age 65. At the same time, it also shows that the situation is reasonable and equitable for persons who retired at age 62, regardless of year of birth, and also as between those born in 1917-21 as against those born later, regardless of age at retirement.

In summary, the notch situation is most unfortunate. With the wisdom of hindsight, it should have -- and could have -- been avoided. Those born before 1917 who worked substantially beyond age 62 should have been prevented from receiving the "windfalls" which they now get. No action should be taken now to give any such "windfalls" to those born in 1917 and after. Proposals that would do so have costs over the years amounting to $100 - $300 billion. There is no reason that younger workers should bear such a financial burden. Accordingly, I urge that no legislative action on this matter should be taken.

TABLE 1

ILLUSTRATIVE MONTHLY BENEFITS FOR MEN[a] WHO RETIRED IN VARIOUS YEARS AT AGE 62 OR AGE 65 WITH MAXIMUM CREDITABLE EARNINGS IN ALL PREVIOUS YEARS

Year of Attainment of Age	Man Retiring at Age 62		Man Retiring at Age 65	
	Initial Benefit	Current Benefit	Initial Benefit	Current Benefit
1972	$167.10	$505.10	$216.10	$653.30
1973	207.60	522.70	266.10	670.10
1974	217.00	528.50	274.60	691.20
1975	253.10	574.00	316.30	717.40
1976	285.60	599.30	364.00	763.90
1977	319.40	630.10	412.70	814.20
1978	354.60	660.50	459.80	856.50
1979	388.90	680.00	503.40	880.30
1980	402.80	640.80	572.00	910.10
1981	432.00	601.30	677.00	942.40
1982	474.70	594.10	679.30	850.20
1983	526.40	613.50	709.50	826.90
1984	559.40	629.90	703.60	792.30
1985	591.30	643.40	717.20	780.40
1986	630.50	665.40	760.10	802.20
1987	662.10	689.90	789.20	822.30
1988	686.70	686.70	838.60	838.60

[a] Man attains the specified age at beginning of year and retires then. Figures for attainments of age 62 in 1975 and after, and age 65 in 1978 and after, are also applicable to women; for earlier years in the table, the figures for women are somewhat higher.

TABLE 2

ILLUSTRATIVE MONTHLY BENEFITS FOR MEN[a] WHO RETIRED IN VARIOUS YEARS AT AGE 62 OR AGE 65 WITH AVERAGE CREDITABLE EARNINGS IN ALL PREVIOUS YEARS

Year of Attainment of Age	Man Retiring at Age 62		Man Retiring at Age 65	
	Initial Benefit	Current Benefit	Initial Benefit	Current Benefit
1972	$148.30	$448.20	$191.30	$577.90
1973	182.30	458.80	233.30	587.50
1974	189.60	477.20	238.60	600.70
1975	216.60	491.10	270.70	613.90
1976	238.80	501.00	302.80	635.60
1977	259.40	511.70	332.90	656.80
1978	282.10	525.30	366.60	682.90
1979	306.50	535.90	400.30	700.10
1980	316.30	503.10	450.90	717.40
1981	343.70	478.10	532.80	741.50
1982	374.50	468.50	535.40	670.10
1983	412.20	480.30	553.00	644.40
1984	434.40	489.20	542.80	611.20
1985	455.50	495.60	548.40	596.70
1986	482.30	509.00	576.40	608.30
1987	502.90	524.00	593.50	618.40
1988	517.90	517.90	626.20	626.20

---

[a] Man attains the specified age at beginning of year and retires then. Figures for attainments of age 62 in 1975 and after (and age 65 in 1978 and after) are also applicable to women; for earlier years in the table, the figures for women are somewhat higher.

TABLE 3

ILLUSTRATIVE MONTHLY BENEFITS FOR PERSONS BORN IN LATE 1916 AND EARLY 1917 WHO HAVE SAME EARNINGS RECORD AND RETIRE ON SAME DATE

Date of Retirement	Average-Wage Earner			Maximum-Wage Earner		
	Born in 1916	Born in 1917	Difference	Born in 1916	Born in 1917	Difference
January 1979	$312	$306	$ 6	$ 395	$ 388	$ 7
January 1980	388	365	23	493	463	27
January 1981	500	449	51	635	570	65
January 1982	623	535	88	789	679	110
January 1983	716	592	124	900	755	145
January 1984	773	638	135	990	826	164
January 1985	834	691	143	1,084	904	180
January 1986	894	747	147	1,178	985	193
January 1987	937	794	143	1,255	1,056	199

Note: Figures rounded down to exact dollars (when not already an exact dollar).

TABLE 4

ILLUSTRATIVE MONTHLY BENEFITS FOR PERSONS BORN IN LATE 1921 AND EARLY 1922 WHO HAVE SAME EARNINGS RECORD AND RETIRE ON SAME DATE

Date of Retirement	Average-Wage Earner			Maximum-Wage Earner		
	Born in 1921	Born in 1922	Difference	Born in 1921	Born in 1922	Difference
January 1984	$430	$437	$7	$556	$559	$3
January 1985	484	488	4	632	635	3
January 1986	541	544	3	713	715	2
January 1987	589	593	4	785	789	4

TABLE 5

ILLUSTRATIVE REPLACEMENT RATES FOR MEN[a/] WHO RETIRED IN VARIOUS YEARS

Year of Attainment of Age	Retiring at Age 62		Retiring at Age 65	
	Average Earnings	Maximum Earnings	Average Earnings	Maximum Earnings
1972	27.4%	25.7%	35.3%	33.2%
1973	30.7	27.7	39.2	35.5
1974	30.0	24.1	37.8	30.5
1975	32.4	23.0	40.4	28.8
1976	33.2	24.3	42.1	31.0
1977	33.7	25.1	43.3	32.4
1978	34.6	25.8	45.0	33.4
1979	34.8	26.4	45.5	34.1
1980	33.1	21.1	47.1	30.0
1981	33.0	20.0	51.1	31.4
1982	32.6	19.2	46.6	27.4
1983	34.0	19.5	45.7	26.3
1984	34.2	18.8	42.7	23.7
1985	33.9	18.8	40.8	22.8
1986	34.4	19.1	41.1	23.0
1987	34.8	18.9	41.1	22.5
1988	34.3[b/]	18.8	41.4[b/]	23.0

[a/] Man attains the specified age at beginning of year and retires then. Figures for attainments of age 62 in 1975 and after, and age 65 in 1978 and after, are also applicable to women; for earlier years in the table, the figures for women are somewhat higher.

[b/] Figure for average wage for 1987 is taken from 1987 Trustees Report.

Written Statement of the National Grange
Prepared by Mark C. Nestlen
Legislative Representative
For the Subcommittee on Social Security
Committee on Ways and Means
United States House of Representatives
April 14, 1988

RE: Social Security: The Notch Issue

Mr. Chairman, members of the Committee, thank you for the opportunity to express the views of the National Grange on the "Notch Years" issue facing Congress.

The National Grange is a general agricultural organization representing 365,000 members in 42 states. Social Security issues are of major concern to rural Americans and our members have debated the "notch years" situation for some time now. Last November the Delegates at the 120th Annual Convention in Syracuse, New York passed the following resolution:

> WHEREAS, due to an error in the formula contained in the 1972 Social Security Amendments, retirees born in 1915-16 received an unintended benefit windfall; and
>
> WHEREAS, in 1977, Congress passed legislation to correct the problem by providing a new benefit computation procedure for all workers born after 1916; and
>
> WHEREAS, proposals to "fix" the "Notch Years" would simply serve to extend a costly mistake and would drain dollars from the Social Security Trust Fund, putting the system in great economic risk; therefore be it
>
> RESOLVED, that the National Grange, recognizing that the solution to the "Notch Year" problem is too expensive and not feasible, endorses the present Social Security computation formula.

The 1977 Social Security amendments changed the formula by which benefits are calculated for Social Security recipients born after 1916. The group of people who reached retirement age shortly after passage of the '77 Amendments represent the "notch" period. These individuals may have their benefits calculated using either the new formula passed in 1977 (for those born after 1916) or the transition formula contained in the '77 legislation (for those born between 1917 and 1921 - the so-called "notch babies"), whichever allows the higher benefit.

The "notch" refers to a situation in which some workers, who reach age 62 in 1979 or later and have their Social Security benefits determined under the computation provision in the 1977 Social Security Amendments, can get significantly lower monthly benefits than similar workers who reached age 62 in 1979 or earlier, have similar earning histories, retire at the same age and have their benefits computed under the old system.

In 1972, a benefit computation method was enacted into law. Retirees born in 1915 and 1916 received an unintended benefit windfall caused by an error in the formula contained in the 1972 Social Security Amendments. This method overcompensated for inflation by taking into account both increases in wages and increases in prices in the benefit calculation. This double indexing would have ultimately created benefit rates higher than a worker's pre-retirement earnings. It was estimated in 1977 that if the old law benefit computation procedures had remained in effect, the combined employer-employee tax rate would ultimately have reached 27 percent of payroll to cover the annual cost of the program. In the 1970's, because of the unusually high inflation, benefit levels increased rapidly and Congress realized it had to correct the problem or risk eventual insolvency of the Social Security System.

Therefore, Congress wrote the 1977 legislation to correct the problem, eliminating the overadjustment for inflation by providing a new benefit computation procedure for all workers born after 1916. As a result, benefits for those born in 1917 and after may be slightly lower than those with comparable earnings born in 1915 and 1916. Congress intentionally established benefit levels slightly lower than those prevailing under prior law to eliminate the unintended rise in benefits that had occurred since the early 1970's.

The lawmakers did not want to lower benefits for those already retired or jeopardize the financial plans of those close to retirement who would not have time to adjust to more reasonable but changed benefit levels. Instead, a plan was designed for those retiring in the future. The new calculation method was intended to gradually lower replacement rates[1/] for the average worker to 40 percent. This correction resulted in new benefit levels and replacement rates that are comparable to the benefit levels established prior to the 1972 error.

The 1977 amendments included a five year transition period (1979-1983) to ease the impact of the new formula on those near retirement. The retirees' benefit was figured under the new law and under the transition provision and then paid the higher of the two calculations. Benefits for people born in 1922 and later are computed under the new formula only. Benefits for many people born between 1917 and 1921 are somewhat higher than they would have been under the new formula without the special rule but not as large as they would have been under the old law. Those who advocate "fixing" the "notch" believe that the reduction of the pre-1977 amendments benefit level was phased in too fast. In fact, the difference between old and new law benefits was greater than expected, but this occurred because higher than expected inflation after enactment of the '77 amendments served to significantly increase the excessive benefits paid under the old formula.

Proposals have been considered to lessen the discontinuity between benefits paid under old and new laws. However, any solution that would eliminate the difference between old law and new law benefit amounts would create other severe problems. H.R. 1917, introduced by Representative Edward Roybal (D-CA), Chairman of the House Select Committee on Aging, would lessen the difference in benefit levels that can occur. The bill provides a new transaction period which extends through the turn of the century to ease beneficiaries from the old benefit formula to the new. While the bill would virtually eliminate the benefit difference between workers born in 1916 and 1917, the lengthy transition would also extend unintended high replacement rates to a large new group of retirees. Additionally, benefits would be payable both prospectively and retroactively.

The price tag on H.R. 1917 is significant. Social Security Administration actuaries estimate it will cost about $192 billion through 1995, $15 billion of which would be retroactive. The actuaries also examined the impact these costs would have on the Trust Funds. Using established economic assumption, they concluded that assets in the Old Age, Survivors, and Disability Insurance (OASDI) Trust Funds would be sufficient to make timely payments of these higher benefits. The margin for safety, however, would be quite narrow through 1988. If economic conditions became less favorable and the country were to go into a recession, the trust funds could be depleted in two years. More importantly, these vastly increased payments would again throw the long-term projections for the Social Security System into the red.

[1/] As used in this testimony, the term "replacement rates" describes the amount of Social Security benefits received in the first year of retirement as a percentage of the amount of earnings in the last year of employment. This replacement rate is not used to calculate the level of the recipient's Social Security check. It is merely a term that represents the relationship between the Social Security benefit and pre-retirement earnings. History shows that when the Social Security System was established, the intended replacement rate for an average wage earner was approximately 40 percent. However, the inadvertent mistake created by Congress in 1972 would have raised replacement rates to near 65 percent.

Other proposals to "fix" the "notch" would not cost us much as H.R. 1917. However, these would be prospective only, would not eliminate the difference in benefits for like workers born in 1916 and 1917 and depending on the number of birth years included, could be very expensive. Any "fix" that does not create another "notch" at a later date would be very expensive because of the large number of persons involved and the great length of time over which expensive benefits would have to be paid.

In summary, it is true that some workers who reach age 62 in 1979 or later (born in 1917 or after) and have their Social Security benefits determined under the computation provisions in the 1977 Social Security amendments can get lower monthly benefits than similar workers who reach age 62 in 1978 or earlier (born in 1916 or before) and have their benefits computed under the old system. However, it is not true that workers born in 1917 through 1921 (workers who reach age 62 in the years 1979 through 1983) get benefits that are lower than those received by individuals born after 1921 (reach age 65 after 1983). It should be noted that the benefit levels established by the 1977 Amendments compare favorably to the level of benefits that were paid historically before the automatic cost-of-living adjustment provision of the 1972 amendments became effective.

Proposals to "fix" the "notch" would simply serve to extend a costly mistake and continue to grant unwarranted windfalls to certain Social Security beneficiaries. Moreover, "fixes" would drain dollars from the Social Security Trust Funds, putting the system in great economic risk and threatening its capacity to provide benefits to future retirees.

Once again, Mr. Chairman, thank you for the opportunity to share our views on this important matter. We look forward to working with this Committee in the future.

295 West Street
Conneaut, Ohio 44004
April 6, 1988

Honorable Andy Jacobs
Chairman - Subcommittee on Social Security

Dear Honorable Jacobs:

I would like to put this letter into the files in opposition to HR 1917 "The Notch Bill". I believe, if passed this would be the most irresponsible bill Congress ever passed. It again would put the social security trust fund again in financial straits and would cause another tax increase to social security. They now pay over 15% between the employee and employer.

I have contacted some congressmen and some senators. Also the commissioners of social security and they all say the same thing. It would cost social security fund between 86 to 90 billion dollars over the next 10 years.

Also, it would put the social security funds in serious financial troubles.

As some congressman have said an error was made in 1972, now another error would be made if HR 1917 was enacted.

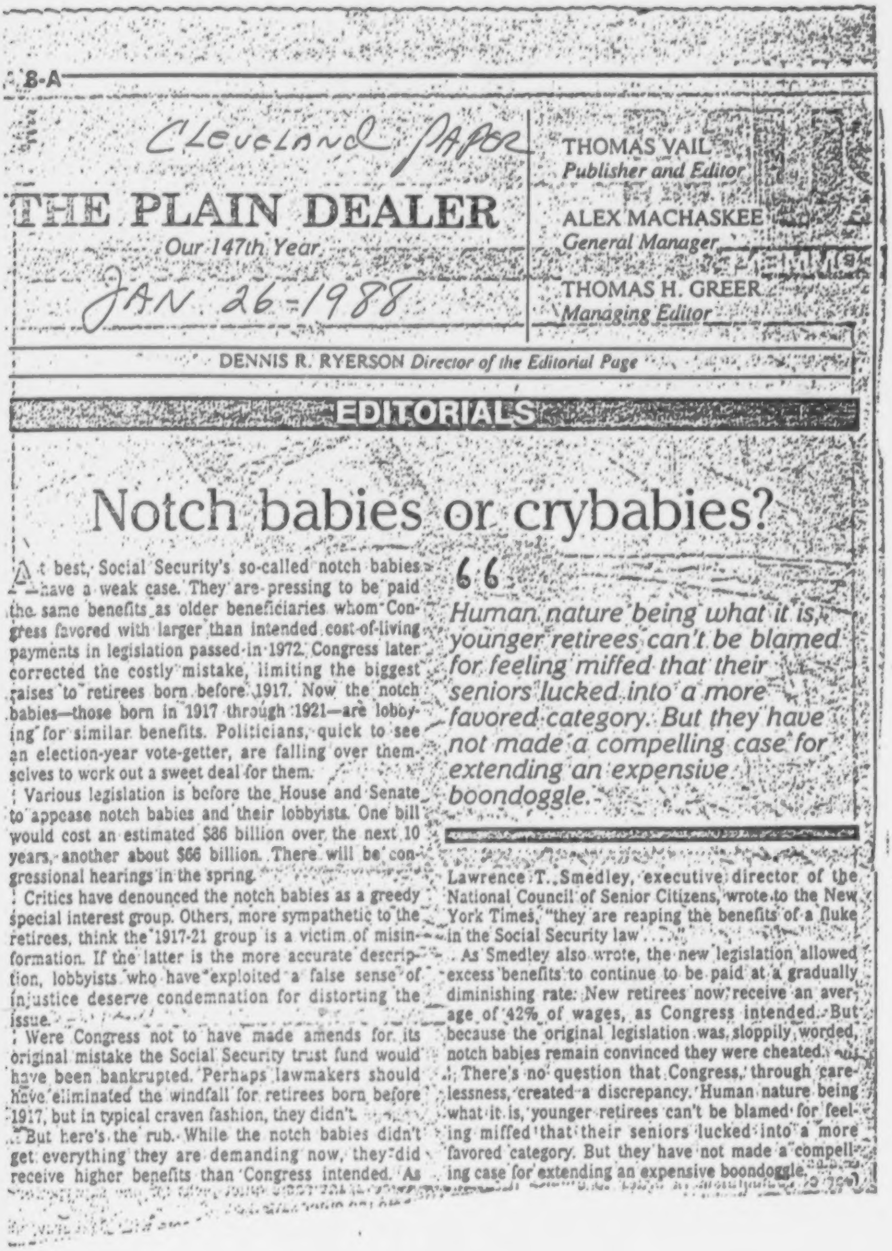
I want my children and grandchildren to benefit from social security as I have. So I say some congressman and senators who are up for reelection are looking from the votes from those effected by "The Notch".

Again I say I am in opposition to further tampering with social security. Also a clipping from the Cleveland Plain Dealer is enclosed.

Sincerely,

Robert F. Naylor

Robert F. Naylor



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Cleveland Paper

THE PLAIN DEALER
Our 147th Year

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Publisher and Editor

ALEX MACHASKEE
General Manager

THOMAS H. GREER
Managing Editor

DENNIS R. RYERSON *Director of the Editorial Page*

JAN. 26-1988

EDITORIALS

Notch babies or crybabies?

At best, Social Security's so-called notch babies—have a weak case. They are pressing to be paid the same benefits as older beneficiaries whom Congress favored with larger than intended cost-of-living payments in legislation passed in 1972. Congress later corrected the costly mistake, limiting the biggest raises to retirees born before 1917. Now the notch babies—those born in 1917 through 1921—are lobbying for similar benefits. Politicians, quick to see an election-year vote-getter, are falling over themselves to work out a sweet deal for them.

Various legislation is before the House and Senate to appease notch babies and their lobbyists. One bill would cost an estimated $86 billion over the next 10 years, another about $66 billion. There will be congressional hearings in the spring.

Critics have denounced the notch babies as a greedy special interest group. Others, more sympathetic to the retirees, think the 1917-21 group is a victim of misinformation. If the latter is the more accurate description, lobbyists who have exploited a false sense of injustice deserve condemnation for distorting the issue.

Were Congress not to have made amends for its original mistake the Social Security trust fund would have been bankrupted. Perhaps lawmakers should have eliminated the windfall for retirees born before 1917, but in typical craven fashion, they didn't.

But here's the rub. While the notch babies didn't get everything they are demanding now, they did receive higher benefits than Congress intended. As Lawrence T. Smedley, executive director of the National Council of Senior Citizens, wrote to the New York Times, "they are reaping the benefits of a fluke in the Social Security law' . . . ."

As Smedley also wrote, the new legislation allowed excess benefits to continue to be paid at a gradually diminishing rate. New retirees now receive an average of 42% of wages, as Congress intended. But because the original legislation was sloppily worded, notch babies remain convinced they were cheated.

There's no question that Congress, through carelessness, created a discrepancy. Human nature being what it is, younger retirees can't be blamed for feeling miffed that their seniors lucked into a more favored category. But they have not made a compelling case for extending an expensive boondoggle.

> *"Human nature being what it is, younger retirees can't be blamed for feeling miffed that their seniors lucked into a more favored category. But they have not made a compelling case for extending an expensive boondoggle.*

STATEMENT OF CONGRESSMAN STEVE NEAL

SUBMITTED TO THE WAYS AND MEANS SUBCOMMITTEE ON SOCIAL SECURITY

THE SOCIAL SECURITY "NOTCH"

Mr. Chairman, thank you for holding hearings on the General Accounting Office's study of the Social Security "Notch." I appreciate the opportunity to submit my testimony for the record and I am doing so in support of correcting the "notch" problem.

I had been eagerly awaiting the release of the GAO study because I hoped it would be useful in educating the public and Congress and would help us to solve the "notch" problem. However, after reviewing the study, I must express my disappointment. The GAO puts too much emphasis on the cost of correcting the disparity, instead of addressing the severe consequences of inaction - the loss of public confidence in the Social Security system and the blatant injustice of denying a vulnerable group of Americans the benefits to which they should be entitled.

In 1977, we in Congress sought to rectify the over-indexed 1972 Social Security benefit formula. We tried to create an equitable situation where the replacement rate, which was flawed, was lowered to make the Social Security trust funds secure.

We believed that the transition period we built into the 1977 amendments would protect from a sudden loss of benefits those individuals retiring as the new formula was implemented. Yet, when we look at the benefit levels for those people in the transition period, we see that they are receiving a substantially lower benefit (about 20% less) than we intended.

I believe it would be tragic for Congress not to act to restore benefits to the notch group. One piece of legislation that would restore benefits, while maintaining the solvency of the system, is the Ford-Sanford bill. It would not negatively affect the long-term health of the system, and it would bolster public confidence in the program. The price tag we are talking about is one we can afford; it amounts to about two percent of the annual Social Security budget.

I am a strong believer in the Social Security system. If we do not respond to this inequity, I am afraid it will undermine the entire system for generations to come.

How can we expect young workers of today to be willing to pay taxes into a program that discriminates against their grandparents just because they happenend to be born in a certain year?

How can we possibly refuse to correct an inequity we in Congress unintentionally created? We addressed the problem facing Social Security in the fairest way we knew at the time. We now see that we made a mistake, and we need to correct it.

Mr. Chairman, I urge you to favorably consider the Ford-Sanford legislation in this Congress, so that we can do justice to those born in the notch years and resolve this issue now. Thank you.

STATEMENT OF HONORABLE BILL NICHOLS
BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
14 April, 1988

MR. CHAIRMAN, I very much appreciate the fact that you are holding this hearing to address the problem referred to as the Social Security "notch". I am on record as voting against the conference report to the Social Security Act Amendments back in 1977, which brought this into effect in 1981. Because the inflation rate was very high during those years it caused an even wider disparity in Social Security benefits given to so-called "notch babies," or, retirees born between 1917 and 1921 and other Social Security recipients born before those years.

In March of 1982 I, along with former Congressman Jack Brinkley of Georgia, wrote to President Reagan asking that he support our efforts to correct this disparity and a copy of that letter is enclosed for the record. In their reply, officials at the White House informed us that our request had been referred to the Special Commission on Social Security which apparently reported to the Congress without addressing the notch problem.

Mr. Chairman, at virtually every town meeting I have had in recent months, the question arises as to what the Congress is going to correct the disparity in earnings received by those Social Security reciepients born in the notch years. And, considering the fact that one retiree with an identical work history as another but born one day earlier than the other can receive over $100 more per month in Social Security benefits, we should understand the concerns raised by these retired persons, many of whom rely on Social Security check as their sole source of income.

In a sense of fairness and equity, the Congress should address this issue and I am hopeful that this hearing today will be positive step in this direction.

[illegible]

[illegible] SCHLEY
[illegible] SUMTER
[illegible] TALBOT
[illegible] TAYLOR
[illegible] TROUP
[illegible] UPSON

Congreſs of the United States
House of Representatives
Washington, D.C. 20515

[illegible]
Compensation, Pension and Insurance
Housing and Memorial Affairs

March 30, 1982

The President
The White House
Washington, D.C.

Dear Mr. President:

We would like to call to your attention the plight of a substantial number of recent retirees who are suffering the effects of the social security benefit disparity known as the "notch" problem. Simply because of their birthdates, they are receiving as much as 10% less than their friends with similar work histories.

This inequity is the unforeseen result of the social security amendments passed by Congress in 1977. They were enacted in an effort to correct the formula then in use. However, during the floor debate which preceded that vote, members were assured that the ensuing reduction would stabilize future recipients' replacement rates at a level no more than 5% below their 1979 levels. Unfortunately, that projection has not been realized, and many recipients today are suffering a reduction twice as great as was anticipated.

Therefore, we invite your consideration of the attached legislation, which would assure that reductions are kept within the range envisioned by Congress in 1977. Together, we can demonstrate that, even as we face difficult decisions with respect to the budget, our government's compassion and commitment to fairness remain undiminished.

Sincerely,

Jack Brinkley

JACK BRINKLEY
Member of Congress

Bill Nichols

BILL NICHOLS
Member of Congress

ds
Enclosure

"Notch Babies" - Coastal Chapter

1675 Los Osos Valley Road, Space #122
Los Osos, California 93402

Telephone: 805-528-2340

April 5, 1988

The Honorable Andrew Jacobs, Jr., Chairman
Committee on Ways & Means
Sub-Committee on Social Security
1533 Longworth Building
Washington, D. C. 20515

Dear Sir:

I regret that I am unable to attend the Committee on Ways & Means, Subcommittee on Social Security meeting on April 14, 1988 in Washington, D. C.

I telephoned the Social Security office in San Luis Obispo, Ca. and asked: "If I had been born in 1916 (with the same earnings) what would my Social Security Benefits be?" The answer I received, "As of March 16, 1988 a Social Security recipient, born in 1916 with your earnings now receives $789.30 per month."

I was born on March 4, 1921, contributed to the Social Security Trust Fund for 43 years, my Social Security benefit (because of the "notch" inequity) is $607.80 per month, A WHOPPING $181.50 PER MONTH LESS. I was shocked and angry to say the least.

I believe my constitutional rights have been violated. I am not being treated equally because I was born at the wrong time.

As Co-President of the "NOTCH BABIES" - COASTAL CHAPTER of San Luis Obispo County, California, and whose 647 members have experienced 13% to 30% reductions in Social Security benefits, just as I have, I ask

> THEREFORE, BE IT RESOLVED, that the Sub-Committee on Social Security take whatever steps are necessary to correct the injustice and inequality to 7.2 million "Notch Babies," creating equality for all, not just those born before 1917.

Sincerely yours,

Elaine R. Martin

Elaine R. Martin
Co-President

MAILGRAM SERVICE CENTER
MIDDLETOWN, VA. 22645
11PM

Western Union Mailgram

4-0457046102002 04/11/88 ICS IPMMTZZ CSP ONXA
1 8055282340 MGM TDMT LOS OSOS CA 04-11 0850P EST

M MARTIN
1675 LOS OSOS VALLEY RD #122
LOS OSOS CA 93402

THIS IS A CONFIRMATION COPY OF THE FOLLOWING MESSAGE:

8055282340 POM TDMT LOS OSOS CA 57 04-11 0850P EST
PMS REPRESENTATIVE ANDREW JACOBS JR RPT DLY MGM
CAPITOL ONE DC 20515
HAVE READ GAO STUDY. DOCUMENTED EVIDENCE PROVES BENEFIT DISPARITIES BETWEEN THOSE BORN BEFORE 1917 AND THOSE BORN IN THE NOTCH YEARS ARE SIGNIFICANT IN DOLLAR AMOUNT. FIGURES DON'T LIE. STUDY FAILS TO ADDRESS DOLLAR AMOUNTS. REPLACEMENT RATES GIVE FALSE FIGURES AND ARE FLAWED. DO NOT CONSIDER POST AGE EARNINGS. WE SUPPORT HR1917 WITHOUT RETROACTIVE. LET'S BE FAIR

ELAINE MARTIN CO-PRESIDENT NOTCH BABIES COASTAL CHAPTER
REPRESENTING 647 MEMBERS
1675 LOS OSOS VALLEY RD #122
LOS OSOS CA 93402

20:48 EST

MGMCOMP

Called in [illegible]

TO REPLY BY MAILGRAM MESSAGE, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

April 25, 1988

Mr. Robert J. Leonard
Chief Counsel, Committee on Ways & Means
U.S. House of Representatives
Room #1102, Longworth House Office Building
Washington, D.C. 20515

Re: Notch Babies Hearing
April 14, 1988

Dear Mr. Leonard:

Thank you for letting me submit a rubuttal to the statements made by A.A.R.P. and N.C.S.C. at the Ways and Means Committee hearing April 14, 1988.

At the hearing Congressman Andrew Jacobs directly asked Mr. Gene Lehrmann, the spokesman for A.A.R.P. how the membership of their organization felt about their stand on the "Notch" and he replied that they backed their stand.

I, can tell you that that is not true. At our convention in 1986, We, the members voted to back correction of the notch. See exhibit #1, the minutes of the convention. I also am exhibit #2 A.A.R.P.'s own Member and Leader opinions on Legislative priorities. In that summay 62% of the members and 60% of the leaders wanted to work on removal of the Notch.

As a former member, I was a member for 9 years, I can tell you that the Chapters and the Members of A.A.R.P. do not back the stand the executive council is taking and are dropping their membership in this organization.

The same with N.C.S.C. their membership was not consulted on how their membership stood on this matter and as a matter of record has sponsored rallies on the notch.

I am a Notch Babie and come from a family where 2 of are and 2 are not. My sister born in 1914 did not work until late '50s and retired at 65 with her top earnings being $12,000 and received $783, when I retired at 65 after working since 1935 and paying into Social Security all of life, making top money and up to $20,000 the last few years, I receive $533. I am still working and paying into the system and receive nothing for it. So how can anyone tell me there is not a difference.

What was not brought out was that all we really want is the earnings figured up to our 65th birthdate. How can Congress discriminate against a certain age group and have our benefits depend on the year we were born. Our Constitution says all men are created equal.

Thank you for your time.

Ms. Shirley Hagen
President, Notch Babies
Los Angeles County

ADOPTED RESOLUTIONS

1986 BIENNIAL CONVENTION

May 28, 1986

TAX REFORM/TAX EQUITY

WHEREAS, public support of the progressive tax system is diminishing due to perceived complexity and unfairness of the present tax code; and

WHEREAS, AARP has consistently advocated reform proposals which, simplify the tax code, restore effective progressivity, restore a fair level of business and corporate taxation, and provide greater tax relief for low and moderate income persons; and

WHEREAS, both the House passed and Senate Finance Committee's tax bills are important steps toward true tax reform; tax rates are lowered, loopholes are eliminated, millions of low income persons are removed from the tax rolls, and a minimum individual and corporate tax is guaranteed; and

WHEREAS, a recent study shows that 50 major corporations -- with profits of over $56 billion -- paid no income tax in 1981-84; by instituting a minimum corporate tax, these bills will help restore the American public's faith in the effectiveness and fairness of the federal tax code; and even though not every older American will benefit from these proposals;

BE IT THEREFORE RESOLVED THAT, AARP supports the Senate Finance Committee and the House Ways & Means Committee tax reform plans that put equity back into the tax code.

SOCIAL SECURITY: "THE NOTCH" EXPLANATION

The notch problem is a complicated one stemming from a combination of actions by Congress. In 1972, Congress enacted legislation to give social security beneficiaries cost-of-living increases on an annual basis. Each time persons already retired were given this cost-of-living raise, the benefit formula used to compute initial benefit awards for new retirees was also adjusted for inflation. However, because the past wages of new retirees had already risen due to inflation and because social security benefits are based on those prior wage histories, the extra inflation adjustment in the benefit formula was accidentally compensating new retirees twice.

These factors combined with the very high inflation of the 1970s meant that benefit levels were increasing far more than Congress had intended. In addition, the system was rapidly headed for financial trouble. Therefore, in 1977, Congress decided to correct the "double indexing" in the benefit formula by phasing in a new, somewhat less generous formula.

In changing to this new benefit formula, Congress realized it had to provide a transition period so that persons nearing retirement would not receive substantially lower benefits than they had expected. Accordingly, Congress provided for a five year phase-in so that those retirees born in 1917 through 1921 would have their benefits reduced only gradually.

WHEREAS, due both to a flaw in the phase-in mechanism and the relatively short phase-in period, the difference between benefits for those born before 1917 and those born immediately thereafter was much greater than intended; and

WHEREAS, AARP has consistently advocated an equitable solution to the problem while continuing to have as its primary concern the current and future financial integrity of social security;

BE IT THEREFORE RESOLVED THAT, the Association continues to support the adoption of a ten year transition period.

SOCIAL SECURITY: THE EARNINGS LIMITATION

WHEREAS, labor force participation rates among older workers have been declining; and

WHEREAS, a continuation of this trend portends an unnecessary loss of tax revenue for the system and a higher degree of income dependence on government programs; and

WHEREAS, the earning limitation is a major disincentive to continued labor force participation for able bodied older persons; and

WHEREAS, the value of the last output of goods and services and the last payroll and income tax receipts are far greater than the "cost" of additional social security benefit outlays;

BE IT THEREFORE RESOLVED THAT, the social security earnings limitation should be eliminated or substantially liberalized for persons who continue to work past age 65.

SOCIAL SECURITY: TAXATION OF BENEFITS

WHEREAS, for the first time in the history of the program, the 1983 Social Security Amendments subject up to one-half of social security benefits of some individuals to federal income taxation; and

WHEREAS, the taxation of social security benefits is a large reduction in the future benefits of current younger workers and is a means-testing of the social security program which is likely

EXECUTIVE SUMMARY

AARP MEMBER & LEADER OPINIONS ON LEGISLATIVE PRIORITIES: 1987

Background

This summary highlights the report of the eighth annual legislative priorities survey. The survey is conducted to assist the National Legislative Council in its development of the Association's legislative guidelines.

Method

Data were collected by mail questionnaire. Every volunteer leader at the state, area, and national level received two four-page questionnaires--one on health care and one on general legislative priorities. Ten percent of the chapter/unit presidents and legislative chairmen received one of the two questionnaires. Two random samples of members received two-page abbreviated versions.

Response rates for the member surveys and the leader health survey typical for this type of survey. The rate for the leader legislative priorities survey was somewhat low. Sample sizes were about 450 for the two member surveys and the leader legislative survey for an error margin of about 5%. The sample size for the leader health survey was more than 900 for an error margin of about 3%.

Despite the response rates, the lack of strong response bias and statistical weighting of the returns assures that the samples are representative of the leaders and members.

Social Security

Separating Social Security from the regular federal budget, removing the "notch" in benefit calculations, and guaranteeing that no older person has a less than poverty level income are the three top legislative priorities of AARP members with regard to Social Security.

Among leaders, the priority ranking is somewhat different, with maintaining the cost-of-living adjustment for all recipients replacing the poverty income guarantee in the top three.

Maintaining the COLA for all recipients is preferable to maintaining it only for low income persons. Similarly, opposition to increasing the portion of benefits subject to income tax is stronger than opposition to lowering the threshold for taxing benefits.

Improving current benefits for widows and other single women is more popular among members than among volunteer leaders.

Comparing responses to those of previous years reveals few differences--support for COLAs, removal of the "notch," and separation from the federal budget is relatively strong, support for elimination of the "earnings test" relatively weak, as has been the case in the past.

Noteworthy are the responses to two new items--that calling for a guarantee that through Social Security and SSI no older person should have a less than poverty level income, and the option calling for the implementation of "earnings sharing" for the long run improvement of benefits of spouses who do not work outside the home. Both are relatively popular.

The full responses are reported below in Table Six. Respondents were presented with a list of options, and asked to rate them on a one-to-five scale (1= most important, 5= least important). The average score, and the percentage of individuals rating an option "most important" are listed below. Again, abbreviated versions of the question are used in the table. The full question and its context may be found in the questionnaire copies in the Appendix.

TABLE SIX
MEMBER AND LEADER PRIORITIES
FOR SOCIAL SECURITY

	Members		Leaders	
Option	Avg.	% Most	Avg.	% Most
Separate from fed. budget	1.5	68%	1.6	60%
Remove "notch"	1.6	62	1.9	50
Guar. at least pov. inc.	1.7	60	2.1	43
Oppose taxing more than 50% of benefits	1.8	56	2.0	41
Keep COLAs for all	1.8	55	1.8	49
Improve service qual/eff.	1.8	51	2.1	34
Impr. bnfts/widows/sing.wom.	1.9	47	2.2	24
Impr. fut. bnfts. for women via "earnings sharing"	2.2	37	2.4	19
Oppose lowering tax threshold	2.3	43	2.3	32
Repeal "earnings test"	2.6	26	2.8	16
Keep COLA for low inc. only	2.7	29	3.2	15

Frances P. Rice
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WRITTEN TESTIMONY ON THE NOTCH FOR THE WAYS AND MEANS COMMITTEE HEARINGS

My typing may not be the best, and my english and punctuation has a lot to be desired, but I have some things to say regarding the NOTCH problem, so I am asking that what is in this written statement go into the records of the HEARINGS.

My name is FRANCES P. RICE, my address is as follows---620 West New Castle Street, Bulter, PA 16001 and my telephone number is---412-285-3015, I am a private individual trying to express my views and concerns about the NOTCH, and yes, I am a NOTCH BABY! Although I am a private individual expressing the views and concern of many NOTCH BABIES across the NATION.

We NOTCH BABIES did not ask to be born during the years of the NOTCH, but born we were during those years , and Congress has done its best to make second class citizens of us with this NOTCH. Through the years the NOTCH BABIES have sacrificed much for their COUNTRY, and I would say that it is time that their COUNTRY made some sacrifices for these NOTCH BABIES, NO LONGER CAN WE AFFORD TO MAKE SACRIFICES FOR OUR COUNTRY AND SURVIVE!

Our Fathers, Uncles, and yes, in some cases our Grandfathers were in World War One. Some of us were conceived and born during those War years. In many cases these men did not come back. So our Country has deprived us of our fathers, so we grew up in a fatherless home, a home where there were many sacrifices made just to survive. We were denied the love and comfort of our Uncles and Grandfathers. And there were a great many of those that did come back that were so badly crippled and maimed, or so very ill that they were unable to support their families, and in quite a few cases became actual burdens to their families. I very vaguely remember that the Verterans of this War had to MARCH on Washington to get help for themselves and their families. Yet, somehow, we survived all of this.

Yes, we survived all of that, only to be faced, a few years later with the GREAT DEPRESSION. The years of the GREAT DEPRESSION, that robbed us of so much. The years robbed us of our general GOOD HEALTH during what is supposed to be our GOLDEN YEARS. Almost all of our HEALTH problems today, if the truth is acknowledged, can possibly be traced back to these years. The poor nutrition during those years, the formative years of our life. These were years that some of us did not have decent meals, we sometimes didn't even eat, for there was no money to be had for the food, and if we did eat, it sure wasn't what we should have been eating. Our Government, way back then, could have set up programs to relieve this problem, but they had to wait until one man came into office as President of this Country, and this man then set up the much needed programs. But these programs were too late to help us, the damage was done. This man must be really turning over in his grave right now with the realization of what is going on in our COUNTRY today.

Yes, the GREAT DEPRESSSION robbed the NOTCH BABIES of good nutrition during their formative years, thereby robbing them of good health during their GOLDEN YEARS. But the GREAT DEPRESSION robbed the majority of them of more than that. It robbed them of the right to a good education and the ability to get the really good jobs, which would have enabled them to really save enough money to insure that they would not be hurting financially during their GOLDEN YEARS. As soon as these NOTCH BABIES became of the age where they could drop out of school they did so, so that they could find work, work of any sort, to help feed and clothe their families. Even for those that were able to finish high school, there were no programs set up to give these students the financial help that they needed to continue their education. There were no loans or grants available for them, scholarships were few and far between, with many vieing for them. And if you were lucky enough to get a good education, unless you were in the professions, there were no savings programs such as the I.R.A.s of today. It was extremely hard for these NOTCH BABIES to put money away and get a good interest growth, which would allow them the financial security for their GOLDEN YEARS. They, also, married and then were faced with the many problems of raising their own families, both financial and physical (health problems in their children). It became a real hassel for a large number of these NOTCH BABIES to save money. And I do realize that Social Security was not designed to be the soul source of income after the age of sixty-five, but those who put together the Social Security System did not, at that time, take into account some of the problems we would be faced with during our lifetime. What little money that my husband and I were able to put away was completely eatened up by my bout with cancer when I was only fifty-one years of age, and we were still in debt and any other money that we were able to put away afterwards was also quickly used up, as a result of the extremely bad health of my husband, which I blame, today, on the poor nutrition of his childhood. Yes, I blame our government for the conditions facing the NOTCH BABIES today.

If our Government, immediately after the CRASH OF NINETEEN TWENTY-NINE, had set up programs to help the people, to see that the people had decent shelter, heat, and good nutritious food on the table, then, just maybe, the NOTCH BABIES would not be faced with the problem that they are facing today (financial and health). To realize just how bad the situation is with some us, all you have to do is to attend some of the Public Utility Hearings all across the NATION, and hear that for many it is a question of a choice of either heating or eating. The conditions among the Senior Citizens today are serious, and not only with the NOTCH BABIES, although they are hurting the most. It took a very wise and GOOD MAN to come into the office of the PRESIDENT OF THESE UNITED STATES to undersand the problems that were facing the people during the GREAT DEPRESSION and try to do something about these problems. But, it took time, time that these people did not have. The new President must set up his new administration, his committees, before he could set up these programs, and this took time. The time to have set these programs was immediately after the CRASH, not four or five years later, so the damage was done. WE WERE ROBBED OF GOOD NUTRITION, EDUCATION, and NOW OUR HEALTH by a Government, that after the CRASH, was more interested in saving their own hides, their own finances. A very selfish, and self-centered Government.

As these programs were set up and put into effect and the people started to get their feet back under them, and they felt better, World War Two loomed into the picture in the late thirties in the form of Germany taking over many other countries in Europe. Our mills and plants started getting orders for all kinds of products and materials to aid in the protection of other countries from the take over, by Germany of their countries. Work started to become plentiful, and we became a happier, healthier, stronger NATION, but always with the fear that the problems overseas would spill over into our Country. We all know, that indeed, we did become involved. We became involved when our Country was attacked at Pearl Harbor in 1941. We did not take this attack sitting back on our heels. We went to War, not in just one part of the World, but in two completely different parts of the World. We became involved in a War, that was truly a World War, for it involved many parts of this old World. A WORLD WAR, it was claimed, that would end oppression once and for all, oppression that would never again rear its ugly head. And, no, we NOTCH BABIES are asked to make the supreme SACRIFICE, the SACRIFICE of our very lives, and the lives of our loved ones. Stop, and think a minute, aren't these very NOTCH BABIES the ones that did battle for their Country during World War Two, aren't they the very ones that went into the production lines, manufacturing God knows what, that was needed to win this War, a War that was supposed to free the World from suppression and oppression. Now that these very same people (NOTCH BABIES) need their Country, where is their Country? This Country is doing everything that it can do to suppress and oppress these people and make second class citizens of them.

The NOTCH BABIES made so many sacrifices during this period of time. They lost the lives of their loved ones, they say their loved ones come home maimed for life. These men came home maimed physically, and mentally many of them living vegetables. As evidence, all you have to do is visit some of our Veteran's Hospitals and Institutions. You'll find them, also, in public and private nursing homes and personal care homes. While trying to help support myself and my husband during the year of 1979 I worked as an aide in one of these private personal care homes, the Colonial Gardens, here in Butler County, in the State of Pennsylvania, and we had many cases of the mental cripples that were the result of this War. This was an experience that I would not like to repeat, but it did enrich my life in the fact that I have a much better understanding of people with this type of problems. It has enabled me to deal with some of my husband's problems, and without this experience I do not think that I could have handled it, nor could I have helped my husband in the way that I have been able to do. And don't for one minute think that the men were the only ones that had physical and mental damage done to them. We had women overseas serving their country, in the armed forces, and in civilian capacity. They also, many of them went through the bombings. We had many of the women in the defense plants and shipyards injured due to the type of work that they were doing and their inexperience. Yes, we NOTCH BABIES gave up much, and made many sacrifices to win this War to end suppression and oppression in the World. Again, I must ask you, how can you turn these people away, when they need your help so badly. Their sacrifices have been great and many!

At the end of this War, World War-Two, we celebrated, but we celebrated not only the end of this War, but the end of our sacrifices. We could now, try to put our lives back together again. It was hard work trying to put our lives back together, trying to live with the after effects of this War, the maimed and ill, the mentally disturbed victims of this War. The ones that were physically able went out looking for work, the women came back home from their work in the defense plants and shipyards. As the demand for the many products manufactured in our plants dwindled so did the jobs, it became harder to find good jobs, but our men were determined to get work and get work they did, it may not have been exactly what they wanted but they had families to support. But as normalcy stated to come back to our lives, we were again faced with yet another uprising, we were faced with what at the time we called a police action, but which later became known as the Korean War. Again the NOTCH BABIES were asked to make more sacrifices!

Yes, again, we were asked to make the supreme sacrifice, the sacrifice of life and limb, the sacrifice of our very minds. But our Country asked it of us and we responded. Again the able-bodied men of us marched off to war, a police action it was called in those days, to do battle in the name of freedom, freedom of the suppressed and oppressed. Again, we NOTCH BABY women watched as our loved ones, our husbands, brothers, and counsins, and friends and neighbors marched off to do battle not knowing what to expect on their return, if they returned. Although this time the women did not go into defense plants, they were still faced with the worry and mental anquish about the welfare of their loved ones. The military pay in many cases was not enough to take care of their families, so they were forced to go to work to supplement their incomes. The children of these NOTCH BABIES were deprived not only of their fathers, but they deprived of their mothers as well. These were hard times for the NOTCH BABIES and the sacrifices were great, but somehow we survived!

And now, with the end of this so-called police action, the Korean War, one would think that now our sacrifices would end, but it did not. Oh, for a time it did, we were able to get on with our lives. We raised our children to be what we hoped would be fine up-standing young men and women. We did not anticipate another police action in the Asiatic area. This was the police action that we now know as the Vietnam War. And we suffered two-fold through this one and long after.

Again, our loved ones were asked to make the supreme sacrifice, the supreme sacrifice of life and limb. Our dearly loved children were now asked to make these sacrifices. Those fine young men that we raised and made sacrifices for were now being asked to make the same sacrifices that we had made in the past. Now, our young people, without our realizing it, had seen and understood the sacrifices that we had made during the Korean War, and they were just not ready to accept the fact they too would be asked to make the same sacrifices. Our children, whom we loved greatly, now began to suffer deep mental anguish deep inside themselves, a conflict, as it were about what was right for them and their Country. They had a deep loyalty for their Country, but they also could see the complete uselessness of this so-called police action. And, all that we could do was to sit helplessly by and watch our children struggle with these conflicts. We felt that we could not advise them one way or another. We did not want to see them go off to fight as we had done twice before, nor did we want them to refuse to do so and flee their Courtry. Either way that they went, meant that we would be sacrificing our children. We would either see our loved ones marching off to do battle in a senseless police action or see them flee to another Country with the possibility of never seeing them again or their families as they married and had families of their own. The outcome of their own. The outcome of all of this conflict is that some went into the service of their Country and eventually to Vietnam, and some fled their beloved Country. We, the NOTCH BABIES suffered the anguish of worrying about the welfare of their children who had left, but they also suffered the shame of what some people called our children. TRAITOR! was the label affixed onto our children, and it broke our hearts to hear it. This is an anguish that most of us, whose children fled this Country will carry to our graves.

Yes, the sacrifices that our Country has asked of the NOTCH BABIES have been great and many, and it is now time that this Country stops asking us to make sacrifices and do something to help these NOTCH BABIES. Let us live in peace and harmony, with the means to enjoy the last days of our lives, I would say that we have earned this right. Put an end to our sacrifices!

Enough for now on the history lessons of the NOTCH SACRIFICES, let us go now to what is happening now and for the past few years in Washington in regards to the NOTCH BABIES and the Social Security System. You people down there in Washington have done everything possible to discourage the NOTCH BABIES from asking for what they should have had long ago. You tell us that to correct the NOTCH will break the Social Security System, yet on January 1, 1988 on HEADLINE NEWS, a part of the Turner Cable Broadcasting System, it was announced that the Social Security Administration released the news that in the year 2030 there would be 12.4 TRILLION DOLLARS in the Trust Funds. I would think that with these figures, knowing that with the present rate of contributions going into the Social Security Trust Funds that the NOTCH correction can be safely made.

I received a short time ago in my mail a copy of a letter, and will enclose a copy of said letter, a member of Congress wrote to one of his constituents. This letter was written by Congressman Joseph J. DioGuardi to his constituant a Mr. Albert K. De Vito at 361 Pin Oak Lane, Westbury, New York 11590. The date on this letter was February 22, 1988. This letter is written on paper with the Congressional Letter head. I used a highlighter on the letter to mark the important parts or statements before I had it copied, it was not meant to scratch anything out, but to point out. I did this never thinking that highlighter would make it look as though they were scratched out. In this letter Congressman DioGuardi stated that a labor dispute between the Social Security Administration and the American Federation of Government Employees is being funded out of the Social Security Trust. He goes on to say that the Trust has been raided to pay the cost of litigating the dispute as well as the award arising from it. He also says that over the past year 4.4 Million Dollars of the fund has gone to pay for trips to Acapulco and hundreds of hours of unsubstantiated over-time pay. And that the Funds have even been used to pay for Harvard seminars for union officials. The Social Security Trust Fund is expected to lose 5.8 Million Dollars this year to this senseless dispute. This man also states that the Social Security Trust Fund is a trust to benefit the workers who earnestly contributed toit over their careers and that we cannot allow the Trust to be compromised or theatened in any way.

I also received in the same letter some material, which was some clipping that had been glued to a sheet of paper and then copied. This material may not be acceptable since I cannot prove from whence it came. But in this material it was said that the Secretary of the Treasury has begun to dip into the Social Security Trust Fund reserves to cover government checks. And some Treasury official have admitted that the trust funds are being spent by the government and is losing millions of dollars, instead of being invested in interest-bearing securities.

What I would like to know is why and how did the Social Security Trust Funds find their way into the General Fund! What was the reason behind it was it done deliberately so that certain parties could dip into it at will, was it done to cover up the real figures in the deficit? These questions are questions that the members of Congress should answer to all of the Citizens of these United States, for it is their Monies!

Could it be that some of our misappropriated funds have gone for the Contra Aid? We have enough problems right here in these United States without sticking our noses into where they are not wanted. How can this Country expect to be respected, when we can't even solve our own problems? If you want a War, then go into an all out War on the Drug Problem, involve the military, all branches of the military, but keep your mitts off of the Social Security Trust Funds!

I don't wnant to hear from any member of Congress that to correct the NOTCH will break the Social Security, not when they let such things as this misappropriation go on in regard to our MONEY! For this, in my opinion is misappropriation of these funds, and the people responsible for this misappropriation of these funds should be held accountable, and I believe that this is a criminal charge. And I feel that the members o f Congress that are aware of this misappropriation should bring these charges. There are many things that I would like to do. I would like to go to places that I have never been, I would like to buy many things that I must do without today, and there are things that we need, but just don't have the money to buy. But I don't want anything that I am not entitled to! The men and women of Congress, both Houses and the Administration of this Country are supposed to be above such temptations, the temptations of the available Social Security Trust Funds and other Funds. These Funds should not be touched for anything other than that they are designated for! Even if the NOTCH is corrected, I still don't expect to be able to do any of the things that I would like to do. Just don't go stealing from me and my husband the many other Senior Citizens. Millions of them are being stolen from each and every month that their Social Security Checks are less than they should be!

I was also shocked to disscover that the NOTCH is quite larger than any one of us realized. The NOTCH is not just the years of 1917 through 1921, but it includes the years of 1922 through 1928! When I received a cppy of the Chart that Senators Terry Sanford and Arlen Specter went to a lot of trouble to prepare I found it very hard to believe. All that I can say about this is "Boy, you people in Congress really did a job on the Senior Citizen for many years to come. It is not fair or right." All that I can think of is that with the knowledge of the misappropriation of funds from the Social Security, you have made sure that there will be full and plentymonies for further misappropriations in the future! This chart was made up to be used in conjunction with Senators Terry Sanford and Arlen Specter Bill, S.B. 1830. I am not exactly in favor of this Bill for I feel that there is much lacking in the Bill, but the Chart does show just how large this NOTCH is, and I feel that the whole NOTCH must be corrected. I am enclosing a copy of this Chart.

We have fought many Wars during the History of our Country. Wars that were fought to stop suppression and oppression, but you people down there in Washington have managed to suppress and oppress these NOTCH BABIES. We try to tell other Countries how to care and treat their people, but we don't practice what we preach! This Country is doing everything that it can do to suppress the people of the NOTCH and make second class citizens of them. I have made this statement many times before, and I shall make it again---"Is Congress just waiting until we all die off, hoping that then the problem will then just go away? If that is what they are doing, they just may succesd, for slowly but surely we are dyiing off."

Looking back on the past few years at the way that this Country's Administrators and Congress, both Houses, have handled problems, both in this Country and abroad I find that I just don't have much use for any official down there in Washington, be it a member of Congress or some member of Administration. You get elected to office or appointed to office, and the day that you officially take that office you squirm your butt back into your luxurious desk chair wring your hands in glee and say to yourselves, "now how can I benefit myself", not what can I do to better this Country and its Citizens. There are very few members of Congress that I have any respect for, for they haven't done anything that I can repect them for. Neither Congess or the Administration have done anything to be respected for. It is my opinion that you are a money-grabbing, blood-sucking bunch, and that the people of your district elected you to office and gave you a trust, and you have failed the people of your districts miserably. And you have failed, you failed when you let the Social Security

Trust Funds become part of the General Funds, and you failed again by allowing the misappropriation of these Funds. I an sick and tired, and angry too, of seeing the low and middle class people of these United States being ripped off. The Rich can take care of their own, the low and middle class people have no one but you, their elected Congressmen, to turn to, to depend on to see that they are protected, and you have failed, failed, failed! I wonder just what it will take to make the people in your districts wake up and do something about you. This is an election year isn't it. Could be that some of them will wake up and then persuade the others that you have failed them and vote you right out of office. I wonder!

One evening, in the past few days, Congressman DioGaurdi in an interview, not having anything to do with the subject of the NOTCH, made the statement that you do bot get anything from Congress by asking for or pleading for what you want, you must demand, demand that they do what you want. Well, I have reached the point where I now realize that all of the asking and pleading of the NOTCH BABLES have had no effect on this Administration, or on our Congressmen. So, I an now, demanding that you correct this NOTCH, correct it so that we will have some back money. Notice that I am not asking for all of the back money, but enough that we can get caught up with some of our back debts. Most of the NOTCH BABIES do have debts that they could not help having. I demand that you get this correction done NOW! Get it into the works NOW! Pull all the stops out and get this money to these people as fast as possible, they have waited long enough! I am also demanding that you get the Social Security out of the General Fund and back where it belongs, and also get any othear Trust Funds out of the General Fund, they do not belong there! Also I am demanding that criminal charges be brought against any and all who have misappropriated THESE funds. No longer should the citizens of these United States have to put up witht he Sleazy operations of this Government. You people down there in Washington have campaigned under, and with the show of hope, compassion, and understanding for the Common Working Class of the public, and it is time that you grew up and live up to your campaings. Stop your lying and conniving, and do what you were sent to Washington for!

I would like to thank you, the members of the Congressional Ways and Means Committee, for allowing me to express my views on the NOTCH. I would have liked very much to have given this testimony in person, but with our finances the way that they are, there is no way that I could do it. Again, thank you.

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[illegible] 3/9/88
Dillon

JOSEPH J. DioGUARDI
20TH DISTRICT NEW YORK

COMMITTEES
GOVERNMENT OPERATIONS
SUBCOMMITTEES
LEGISLATION AND NATIONAL SECURITY
GOVERNMENT INFORMATION, JUSTICE
AND AGRICULTURE

SMALL BUSINESS
SUBCOMMITTEE
GENERAL OVERSIGHT AND THE ECONOMY

SELECT COMMITTEE ON NARCOTICS
ABUSE AND CONTROL

Congreſs of the United States
House of Representatives
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(914) 997-6440

February 22, 1988

Mr. Albert K. De Vito
361 Pin Oak Lane
Westbury, New York 11590

Dear Mr. De Vito:

A FIGHT IS NOW UNDER WAY TO PROTECT YOUR SOCIAL SECURITY TRUST FUNDS!!

I have joined a core group of Congressional Representatives demanding that a [redacted] between the [redacted] s no longer [redacted]. The Trust has been [redacted]

[redacted] have even [redacted]. The costs of these abuses are rapidly escalating. [redacted]

This is an intolerable situation. It is unconscionable that any portion of the Social Security Trust could be misused to pay for these ludicrous charges. I am vehemently opposed to this abuse of the fund and you can rest assured that I will pursue every avenue to bring this raid of the Trust to a halt.

Recently, as a member of the House Subcommittee on Employment and Housing, I questioned both the Social Security Administration and the American Federation of Government Employees at length on how these abuses could have occurred. Most important the Subcommittee extensively questioned the parties as to how we can halt these abuses.

The remedies to this situation may eventually call for legislation. I have already alerted members of the House committee with legislative jurisdiction over this situation that they may be called on in the very near future to protect the Trust. In the meantime, I will take every means at my disposal to put an end to this abuse.

[redacted]

Sincerely,

Joe

Joseph J. DioGuardi
Member of Congress

They Just Won't Keep Their Hands Off Social Security!

Outraged seniors over the nation this year helped defeat President Reagan's proposal to steal cost-of-living adjustments from pension checks. The resounding defeat for this led many to believe that the Republicans would let Social Security alone for a while.

Not so!

(1)

There are two major moves under way that would endanger senior federal retirement funds. [redacted] by 1991 proposal, originated in the Republican-controlled Senate. [redacted]

A bill sponsored by Sens. Phil Gramm (R-Tex.) and Warren Rudman (R-N.H.), generally referred to as the Gramm-Rudman amendment, is supposed to reduce the national deficit, leading to a balanced budget in 1991. In any year in which the budget target falls short, the President would have authority to make substantial cuts in spending for both entitlement and discretionary programs.

The sponsors claim Social Security benefits would be preserved under the bill but a number of Democrats and advocates for the elderly warn the Gramm-Rudman proposal contains loopholes that could allow Social Security to be cut. The President, they say, still would be able to offer an alternative budget that includes cuts in Social Security. Others contend there is nothing to prevent Congress from changing the budget rules after the 1986 election and try to cut Social Security to spread the burden of budget cuts.

(2)

Meanwhile, [redacted]

The news startled members of Congress, leaders of aging groups and organized labor, as well as the retirees themselves, who were always led to believe the funds could be used only for Social Security payments. [redacted]

The AFL-CIO, in official convention action, has called the Gramm-Rudman balanced budget legislation a "national disaster," pointing out it would turn the next recession into a depression, abdicate constitutional powers of Congress to the President, and demolish essential government programs that have already been sharply cut back.

"There is no provision in Gramm-Rudman to raise additional revenues by closing tax loopholes," the AFL-CIO resolution said. "Thus, wealthy individuals and profitable corporations would continue to pay little or no taxes, while the disabled, the elderly, the veterans and the poor would suffer."

Social Security Commemoratives

Commemorative stamps and First Day covers honoring 50 years of Social Security are available through the Samuel Gompers Stamp Club. Included in the cachet is a facsimile of a Social Security card, as it was originally issued by the Social Security Administration, as well as quotes from President Franklin Delano Roosevelt made in 1935 on Social Security. The cachets are available for $1.00 each or 3/$2.50 from the Club at P.O. Box 1233, Springfield, Virginia 22151. Include with your order a self-addressed stamped envelope (#10).

Social Security Checks Have A Brand New Look

Your familiar green punched Social Security check will be replaced with a colorful new check, starting Dec. 3.

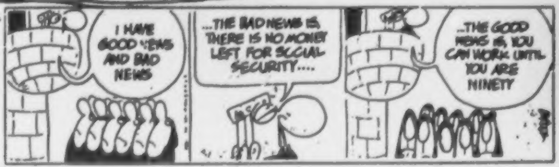
The format of the new checks features the Statue of Liberty over a multicolored background, and pattern of USA imprints in pale blue on the opposite side. The checks will make it more difficult for thieves to alter or counterfeit. Banks and others who normally cash Social Security checks have been alerted about the change and you should have no problem cashing them.

SOCIAL SECURITY

COLA Due In Jan. SS Checks

Washington, D.C.—An increase of 3.1 percent in Social Security benefits will be included in all checks received in January, because Administration efforts to cut the COLA were shot down in flames earlier this year.

Rep. Edward Roybal, chairman of the House Aging Committee, reminded older people that "we almost lost it last spring." That was when, during debate on the Senate budget resolution, Vice President George Bush cast the deciding vote and approved a resolution that eliminated the entire COLA for seniors and other beneficiaries. Outraged seniors and their organizations, helped defeat the proposal to cut Social Security COLA.


I HAVE GOOD NEWS AND BAD NEWS
...THE BAD NEWS IS, THERE IS NO MONEY LEFT FOR SOCIAL SECURITY....
...THE GOOD NEWS IS, YOU CAN WORK UNTIL YOU ARE NINETY

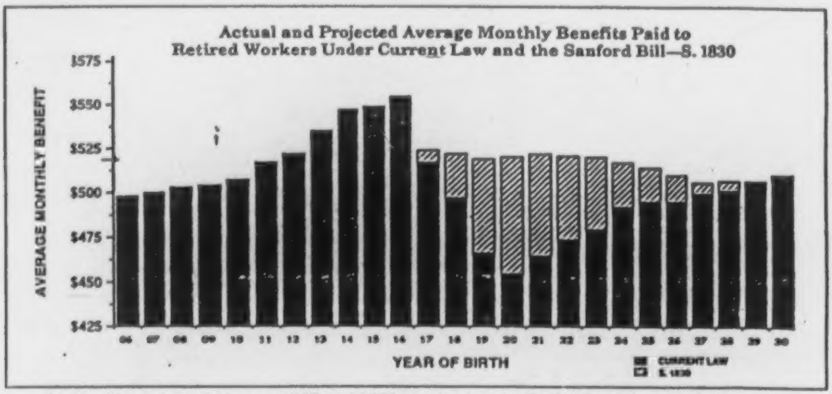
NOTCH BABIES©GRASS ROOTS NATIONAL COALITION

NOTCH BABIES©ORGANIZATION
P.O. BOX 11010
PITTSBURGH, PA 15227
ORGANIZED JAN 1, 1985

Anthony Purcell Jr.
President.

Let's Right the Wrong.

Over 1 million Pennsylvanians and Ohioans born in the "Notch Years" after 1916 lost almost $1 billion in Social Security benefits this year. The Notch injustice was caused by a Congressional error, and now politicians and even some groups that claim to represent Senior interests say it's too complicated and costly to solve. But there is a solution. In October 1987 Sens. Terry Sanford and Arlen Specter introduced S. 1830, legislation that will restore fairness to the Social Security benefit system.



Actual and Projected Average Monthly Benefits Paid to Retired Workers Under Current Law and the Sanford Bill—S. 1830

Senior citizens born between 1917 and 1928 receive less in Social Security benefits than other Americans with identical work records. S. 1830 will correct the problem and restore fairness.

The Sanford Bill costs less than other Notch reform bills, while doing better for almost everyone. The Sanford Bill:

- Increases annual benefits for the average Notch Baby born between 1917 and 1928 by $383. (Notch Babies born between 1917 and 1921 will receive an average increase of $524.) Actual increases will range from less than $100 to more than $1,200 per year, depending on date of birth, age at retirement, and earnings history.
- Recognizes the legitimate claims of current retirees by providing retroactive payments up to $1,000 per worker for past losses.
- Permits Trust Fund assets to grow to over $1 billion by 1999.
- Guarantees a stable level of future benefits for all retirees.

It's time to right the wrong.
Ask the politicians and Senior interest groups to support S. 1830.

NATIONAL COMMITTEE TO PRESERVE
SOCIAL SECURITY AND MEDICARE
JAMES ROOSEVELT, CHAIRMAN
2000 K ST. N.W. WASHINGTON, DC 20006

STATEMENT OF CONGRESSMAN JOHN G. ROWLAND
before the
SUBCOMMITTEE ON SOCIAL SECURITY
of the
COMMITTEE ON WAYS AND MEANS
April 14, 1988

Congressman Jacobs and Members of the Subcommittee:

I would like to thank you for permitting me to testify today on the critical subject of the Social Security notch. Also, Mr. Chairman, you are to be commended for scheduling this hearing so soon after the Subcommittee's receipt of the General Accounting Office (GAO) report on the notch. I am hopeful that this hearing will become the first step toward a favorable and final resolution to the notch inequity.

Many of my colleagues, members of elderly advocacy groups, and the elderly themselves will competently testify to the mistakes that were made in 1972 and again in 1977, resulting in the Social Security notch problem. They will inform you in detail how Congress, in its haste to correct the Social Security benefit formula it created in 1972, neglected to study all of the relevant factors and, therefore, failed to achieve its 5 percent benefit reduction goal. I would like to explore another avenue surrounding this issue.

As you know, Social Security recipients adversely affected by the notch were born during the years 1917 through 1921. It is coincidental that these individuals comprise a significant portion of those who entered the armed forces to fight during the Second World War. For those who did not enter the armed forces, the dramatic rise in the need for able-bodied workers meant that these individuals filled the factory and service jobs critical to the war effort. As a Member of both the Veterans' Affairs and Armed Services Committees, I believe that I am qualified to represent to you the economically desperate situation too many of these brave, sacrificing Americans face because of the Social Security notch.

Those born during the notch years ranged in age from 19 to 23 when the United States officially entered into World War II. By any account the cream of the recruitment crop. For those not enlisted to fight, it was a call to duty in our factories producing tanks, armaments, battleships, munitions, and all the other materiel essentials. And, we should not forget the wives and mothers who remained at home, keeping the family united during times of shortage and want. These are the Americans who have been repaid for their service and sacrifice by being denied their full Social Security benefits.

Born before the advent of Social Security, the "notch babies" spent their formative years during the Great Depression. They embraced the Social Security Act of 1935 as the U.S. Government's answer to safeguarding not only their parents' retirement, but, in time, their retirement as well. The notch seems a rather cruel joke at best to these Americans.

Now, I have read the General Accounting Office report on the notch and am deeply concerned by it. That the GAO believes it would be acceptable for this Congress to shirk its responsibility to the "notch babies" because that is what Congress in 1977 intended, is naive at best. The report points to the fact that in 1977, when the notch was created, Congress was not in possession of all the facts regarding the issue. I know they faced a critical problem. Without a doubt our predecessors faced it with courage and made tough choices. Unfortunately, the fix that was chosen proved to be as flawed as the 1972 benefit formula that led to the need for the fix. The 100th Congress should correct the mistakes of the past. Those who are suffering are living in the present and I do not believe I need remind my colleagues that they will be very much alive in November.

Several proposals have been introduced to correct the notch inequity. I would like to express my support for H.R. 1917, legislation introduced by Congressman Roybal. Congressman Roybal, as Chairman of the House Select Committee on Aging, has few peers in his dedication to the needs and rights of the elderly. His bill, the Social Security Transitional Benefit Computation

Act, would competently and feasibly recompense those affected by the notch. Mr. Roybal's testimony before this Subcommittee detailed the content of H.R. 1917, however, I would like to review some highlights. H.R. 1917 would extend the transition period from five to ten years, include post age 61 earnings in benefit computations, and compute benefits using the 1972 formula minus 3 percent. This bill has its price, but a pitifully small price to pay for so many who gave to this country so much.

The exclusion of post age 61 earnings, along with the high inflation rates of the 1970s, doomed the workability of the transition formula. You have learned how this particular exclusion adversely affected women who left the workforce to bear children and minorities. I would like to add another reminder to colleagues on the Subcommittee. The aging of our population has increasingly meant that workers are remaining in the workforce well beyond age 61. By excluding post age 61 earnings we, in effect, have asked them to work without further building their equity in the Social Security program. To return to those "notch babies" who served in the armed services, they can be said to have served their country twice, but only knew about the first.

Two years after enactment of the 1977 Amendments, Congress had a chance to correct the problem we must now face. Mr. Robert Myers, former chief actuary of the SSA, set down in a memorandum the problems with the 1977 Amendments. He paid particular attention to the exclusion of post age 61 earnings and to the unintended effects of hyperinflation during the later 1970s as direct causes of the increasingly discriminatory notch effect. Congress chose to ignore his warnings until today, nine years later. Now it is up to the 100th Congress to right the wrongs of the past and deliver to those affected a just recompense.

In closing, I would only like to state that I trust this hearing will mark the beginning of the end of the Social Security notch problem for the millions of Americans who have suffered its often humiliating effects. It is my fervent hope that Congressman Roybal's knowledge of elder issues, along with my commitment and the commitment of more than 150 Members of the House, will speak loudly and clearly in support of H.R. 1917 as the best legislative answer to the notch discrimination.

Mr. Chairman, I again commend you for scheduling this hearing and thank the Members of the Social Security Subcommittee for their patience and willingness to listen to my testimony. I look forward to working with you in arriving at a final and favorable solution to this unintended inequity.

April 18/88
Mrs Gloria Rae Schuters
1299 Palmer ave
Larchmont N.Y
10538

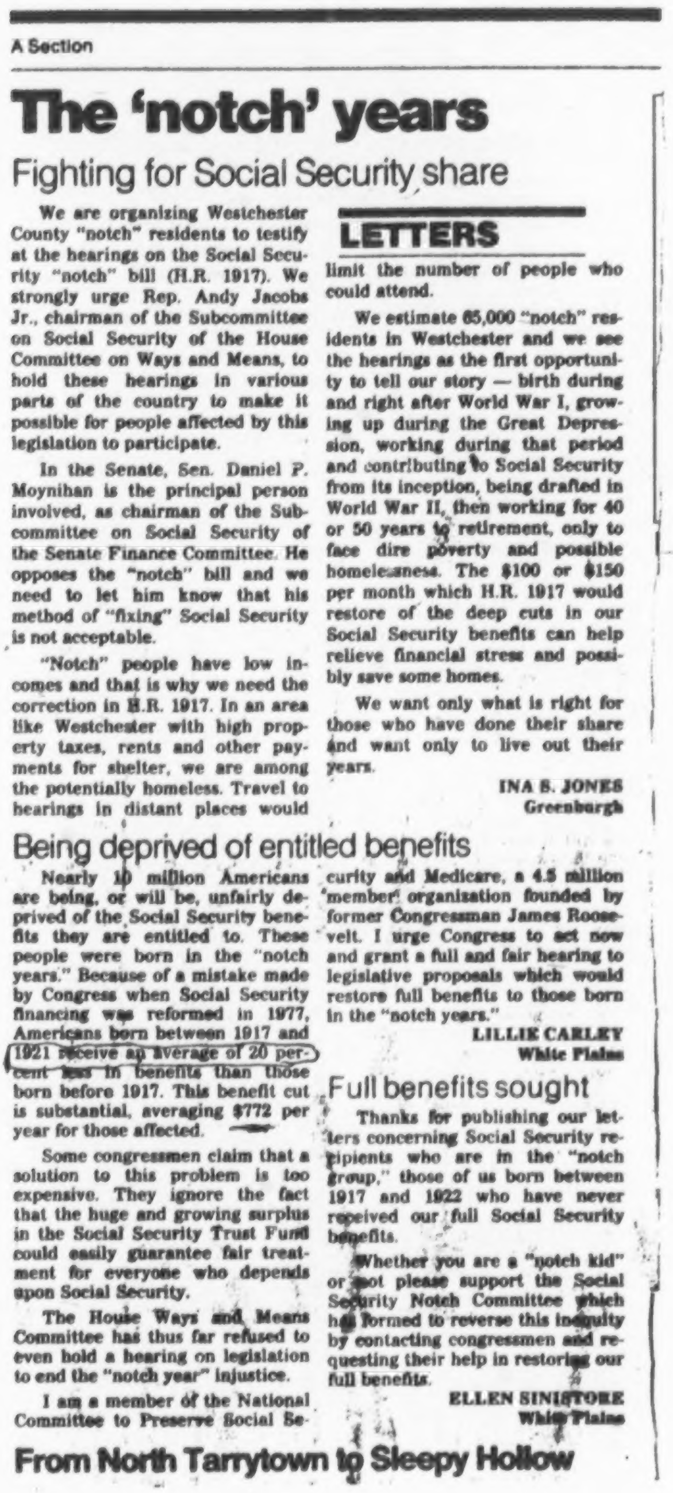
To Ways & Means Comittee
U.S House of Representives
Ive Written several letters
concerning the notch yrs.
notch people have low incomes
living in Area of Westchester
Larchmont, N.Y Rents, food,
property taxes are high.
We are among the potentially
homeless We represent 65,000
people notch residents of Westchester
Social Security financing Was
reformed in 1977 americans born
between 1917 & 1921 receive an average
of 20 persent less benefits than
those born in 1917.
This benefit cut is substanial
averaging $772.00 per yr. for those
effected some Congressmen Claim
solution to this problem is to
expensive to solve but they can
raise their Salaries. legal gaming
funds could easily guratee fair
treatment for everyone who depends
upon this Social Security to live
thus far these Comittees have
refused to hold hearings on this
Matter. legislation should take
care of the people who love & care

for our Country. & who went to war & forught for our American flag this was Injustice Congress Made this mistake & didnot take Care of it thinking nothing would ever Come out like it has never mine the homeless bums who chose to live their lives like that. we are all being dicrimated against. & make these so called drug addicts get to Work & stop giving them money to by these drugs.

Congress Made this mistake & never took Care of it. I've have all the Witten statements enclosed for you.

Sincerely yours
Gloria Rose Pohulary.

P.S. Would you like to be Working at 70yrs old to make your rent food & clothing this is not the American Way more attention to serious problams like this. We are the loyal Americans. our flag Means a great deal to a true Patriot.



The 'notch' years

Fighting for Social Security share

LETTERS

We are organizing Westchester County "notch" residents to testify at the hearings on the Social Security "notch" bill (H.R. 1917). We strongly urge Rep. Andy Jacobs Jr., chairman of the Subcommittee on Social Security of the House Committee on Ways and Means, to hold these hearings in various parts of the country to make it possible for people affected by this legislation to participate.

In the Senate, Sen. Daniel P. Moynihan is the principal person involved, as chairman of the Subcommittee on Social Security of the Senate Finance Committee. He opposes the "notch" bill and we need to let him know that his method of "fixing" Social Security is not acceptable.

"Notch" people have low incomes and that is why we need the correction in H.R. 1917. In an area like Westchester with high property taxes, rents and other payments for shelter, we are among the potentially homeless. Travel to hearings in distant places would limit the number of people who could attend.

We estimate 65,000 "notch" residents in Westchester and we see the hearings as the first opportunity to tell our story — birth during and right after World War I, growing up during the Great Depression, working during that period and contributing to Social Security from its inception, being drafted in World War II, then working for 40 or 50 years to retirement, only to face dire poverty and possible homelessness. The $100 or $150 per month which H.R. 1917 would restore of the deep cuts in our Social Security benefits can help relieve financial stress and possibly save some homes.

We want only what is right for those who have done their share and want only to live out their years.

INA S. JONES
Greenburgh

Being deprived of entitled benefits

Nearly 10 million Americans are being, or will be, unfairly deprived of the Social Security benefits they are entitled to. These people were born in the "notch years." Because of a mistake made by Congress when Social Security financing was reformed in 1977, Americans born between 1917 and 1921 receive an average of 20 percent less in benefits than those born before 1917. This benefit cut is substantial, averaging $772 per year for those affected.

Some congressmen claim that a solution to this problem is too expensive. They ignore the fact that the huge and growing surplus in the Social Security Trust Fund could easily guarantee fair treatment for everyone who depends upon Social Security.

The House Ways and Means Committee has thus far refused to even hold a hearing on legislation to end the "notch year" injustice.

I am a member of the National Committee to Preserve Social Security and Medicare, a 4.5 million member organization founded by former Congressman James Roosevelt. I urge Congress to act now and grant a full and fair hearing to legislative proposals which would restore full benefits to those born in the "notch years."

LILLIE CARLEY
White Plains

Full benefits sought

Thanks for publishing our letters concerning Social Security recipients who are in the "notch group," those of us born between 1917 and 1922 who have never received our full Social Security benefits.

Whether you are a "notch kid" or not please support the Social Security Notch Committee which has formed to reverse this inequity by contacting congressmen and requesting their help in restoring our full benefits.

ELLEN SINISTORE
White Plains

From North Tarrytown to Sleepy Hollow

Robert J. Leonard, Chief Counsel
Committee on Ways & Means
U.S. House of Representatives
Room 1102 Longworth House Office Bldg
Washington. D.C. 20515

Dear Sir:

Just want to register my opposition to the way social security is calculated for the "notch" people These were the people that served during WWII. I was in army 3 yrs 6 mos + 14 days. Part of time was spent in South Pac and Japan occupation force

Brinton E Smith
2301 S. Van Wert Rd
Villa Rica Ga 30180

E. JUNE SMITH
7802 Hanover Parkway T-1
Greenbelt, Maryland 20770

April 5, 1988

House Ways and Means Committee
Subcommittee on Social Security
1102 LHOB
Washington, D.C. 20515

Subject: "Notch" Hearing, April 14, 1988
1100 LHOB

Ladies and Gentlemen:

Please include this statement in the printed record of the subject hearing.

In 1989 I will be eligible for full retirement, and I will have contributed to the Social Security system for 42 years. I am a member of the "notch" group. My husband and brother are also members.

It is my belief that all those born between 1917 and 1926 (the "notch" years) must receive their Social Security benefits on the same basis as all other members of the system. Please urge enactment of legislation to ensure this result.

Very truly yours,

E. June Smith

E. June Smith

STATEMENT OF REPRESENTATIVE LAWRENCE J. SMITH (FL)
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
APRIL 14, 1988

Mr. Chairman, the Government Accounting Office's (GAO) recent report titled, "Social Security: the Notch Issue", confirms the Social Security monthly payment disparity known as the "notch".

The GAO report substantiates that: 1) people born between the years 1917 and 1921 are indeed receiving lower monthly Social Security payments, 2) the notch is a result of legislation initiated in 1977 by Congress to rescue the Social Security system from bankruptcy, and 3) people born before 1917 are receiving an unintended windfall due to benefit-formula errors.

As Congress considers legislative remedies, GAO recommends that Congress: 1) keep the effect of notch legislation on the current and future trust fund balances as neutral as possible, 2) evaluate the resources and time required for implementing the legislation and, 3) retain the current transition period.

Since entering the House of Representatives in 1983, I have received thousands of letters from South Florida senior citizens concerned about the direct effects of the notch on their lives. To this day, I remain committed in my efforts to reduce the inbalance in monthly Social Security payments to citizens born between the years 1917 and 1921 compared to those born before 1917. Accordingly, I have taken an active role in promoting the interests of these "notch babies".

On May 15, 1986, I testified before the House Select Committee on Aging hearing attended by over 500 notch babies in support of H.R. 1917. This legislation would eliminate the notch by means of a new, more technically sound formula and help restore equity to the Social Security system.

We must reduce this disparity in benefits and restore equity and fairness to the Social Security system. The notch babies contributed to the Social Security system, and they should receive the benefits to which they are entitled, benefits which perhaps a relative or friend who is one day older may be receiving.

I hope that the conclusions of this GAO report will inspire Congress to thoroughly evaluate this issue and spur the passage of legislation to remedy the notch dispute.

STATEMENT OF THE HONORABLE LOUIS STOKES (D.-OHIO)

Mr. Chairman. Thank you for this opportunity to make a statement on the social security "notch". This issue has created much debate and controversy among our nation's senior citizens. I am pleased that your committee has provided a forum to address this continuing problem.

Social Security is one of our nation's cornerstone programs that ensures the welfare needs of our elderly and disabled citizens. For many of these individuals, it is the major -- and often times only -- means of support.

During the past several years, the quality of life for many senior citizens has been jeopardized by such things as escalating health care costs, unaffordable housing and rising inflation rates. These problems are compounded by financial hardships resulting from the nominal annual cost-of-living adjustments to Social Security.

Mr. Chairman, our seniors have worked hard to support our nation. We can all be proud of their accomplishments, from which we all have benefitted. It is unconscionable that after years of hard work that they are unable to enjoy their twilight years.

Now, as a result of a Congressional mistake, we have created a situation where some of the elderly benefit more from Social Security than others. This "notch" problem has created a rift among our seniors. Everyone has a right to compensation using fair and equitable standards under Social Security.

Mr. Chairman, I commend you and your committee for ordering the GAO study of the "notch" and the corresponding Congressional proposals. That report, along with these hearings, will make it possible to analyze the issue in-depth, and hopefully come up with a viable solution. I urge you to give this matter prompt consideration, and pledge my support in this regard.

STATEMENT OF THE HONORABLE FERNAND J. ST GERMAIN

SUBMITTED TO
SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON WAYS AND MEANS

I want to commend Chairman Jacobs and the Subcommittee for holding hearings on the recently released General Accounting Office report on the notch.

These hearings are necessary to clarify the record on the notch and to determine the Congressional intent of the Social Security Amendments of 1977. The inequities and unfairness of the notch have been well documented. The GAO report itself confirms the existence of the notch. Unfortunately, the report reaches the conclusion that a legislative solution to correct the notch is not justified. I cannot support this conclusion.

The notch refers to the difference in benefits received by workers born before 1916 and those with similar work histories born after 1916. The 1972 Social Security Amendments called for an automatic yearly cost-of-living adjustment to benefits which tended to overcompensate for inflation. When Congress realized that the system could not maintain these payment levels, changes were made to the formula in 1977. To ease the burden of the changeover for people approaching retirement age, a five year transition period was implemented. The transition formula, which was to have provided for a gradual change, did not create a smooth transition to the new benefits. While I agree that reform was needed, the intent of the legislation was not carried out. Instead of a gradual transition of a 5% reduction in benefits over five years, benefits for those retiring at age 65 were immediately reduced by 10% or more.

I do not believe that Congress intended the great disparity in benefits that now exist. I do not believe one of us here could say we would have knowingly supported legislation which allows for a variation in Social Security benefits of up to $100 for people who worked at similar jobs, earning similar wages, for the same number of years, and whose only difference is their day of birth. The unfairness of this situation is clear. We have made excuses to these notch victims for far too long. It is time to acknowledge our mistakes and put an end to the inequities caused by the 1977 legislation.

Social Security is a social insurance program which provides protection against a loss of income. After contributing to the system during ones working career, Social Security benefits replace a portion of this income. The elderly depend on this replacement, and the loss of $100 or even $20 a month can be devastating. I believe it is important the Social Security system be fair. A perception of unfairness will lead to an erosion of faith in the system. We must understand that it is the goodwill of Social Security that is at stake.

There are 10 million American citizens, many of whom lived through the depression and fought in World War II, who are affected by the notch. I have heard from a number of these notch victims who reside in the first district of Rhode Island. I can assure you that these individuals do not feel the system has been fair to them. The feelings of resentment are obvious, the pleas for correction, passionate. Many of these notch victims believe Congress is dragging their feet on this issue simply waiting for them to die. But their voices are not diminishing, they are growing louder and they cannot be ignored.

Critics argue that a legislative solution will be too costly. Cost cannot be the sole basis by which we decide the worth of public policy. I agree that we must be fiscally responsible, but we must also be politically responsible. Congress created the notch, and we have the power to correct it and restore fairness to the system. The resources exist to correct this inequity without jeopardizing the Social Security trust fund. The Social Security Administration has estimated that assests in the trust fund will total $200 billion by 1990 and $1.3 trillion by 2000. The estimates of the cost of Mr. Roybal's or Mr. Ford's legislation (both of which I have cosponsored) range from $50 - $80 billion through 1996. These bills offer fair and responsible solutions to the notch, and they should be considered by this Subcommittee.

Mr. Chairman, I hope you will agree that a legislative solution to correct the disparities in benefits to notch victims is justified. Continued faith in the Social Security system depends on your actions.

Statement of Congressman Esteban E. Torres
before the Committee on Ways and Means
Subcommittee on Social Security
Thursday, April 14, 1988
Washington D.C. 20515

I want to thank Chairman Andy Jacobs for holding this hearing on the General Accounting Office Report about the Social Security "Notch" issue.

Since coming to Congress in 1982, I have received thousands of letters, postcards and phone calls asking me about the Social Security "notch". One petition I receieved contained over 1,500 signitures urging elimination of the "notch" problem. I have been following this issue since my election in 1982 and I have cosponsored numerous bills that sought to resolve the situation. In fact, late last year I wrote you a letter along with sixty other Members of Congress. The letter asked you to hold a hearing as soon as the General Accounting Office released their report on the notch issue. I applaud your decision to examine this issue and attempt to put it to rest.

The one comment shared by everyone contacting me about the benefit inequity has been that the "notch" is unfair. The idea that all workers could equally contribute to the same Social Security System and then be discriminated against simply because of the date of their birth is intolerable. People who have worked all their lives expect a fair share of their Social Security benefits. They do not want to hear excuses about flaws in the benefit formula.

I have received several letters from my consituent Ms. Shirley Hagen about the "notch". Her letters are typical of the many thousands I have received. She wrote: "My older sister was born in 1914 and she got $783 a month. When I was getting ready to retire, they said I would get $410. I couldn't figure it out because my sister didn't make more money than me, so I questioned the figure. They found a mistake and when the final figure came in it was $420." When she found out this difference was due to the "notch" she started organizing others in the same situation and she has since become the director of "Notch Babies, Inc." Her group has been busy informing others about the problem and meeting with federal elected officals to convince them to correct the "notch".

Mr. Chairman, I am pleased that the first obstacle to correcting the Social Security "notch" situation has been overcome with today's hearing. The report by the General Accounting Office is an excellent starting point which will prove instrumental in reaching a reasonable compromise to correct this "inequity". While any proposal threatening the financial stability of the entire Social Security System is unacceptable, the "notch" must be resolved. For these reasons, I sponsored H.R. 1917 introduced by Congressman Roybal. I also support H.R. 3788 introduced by Congressman Ford. I believe that these bills offer a reasonable and equitable way to solve this unfair situation.

Once again, I thank you for holding this hearing today. But I also strongly encourage this subcommittee to take the next step and develop a bill to solve this problem. A hearing is fine, but what we really need to do is write a bill which we can vote on in the House Chamber, send it to the Senate and the President; a bill which once and for all, will solve the "notch" inequity. I enjoy corresponding with my constituents about this problem. However, I want most to tell them that the problem has been put to rest.

AN EXAMPLE OF THE NOTCH INJUSTICE

Sidney M. Ulan and Gertrude Warwick of Wallingford, Pennsylvania

Statement by Sidney M. Ulan

After serving almost four years in the Army Air Corps as a pilot in World War II, I entered the family business in Chester, Pennsylvania at the end of 1945.

Together with my partner (who happens to be my sister), we conducted a men's clothing store and shared equally in the profits and losses for over thirty years. We paid exactly the same amount into Social Security in all those years and retired from the business at the end of 1982, when I applied for Social Security benefits.

My sister was already collecting Social Security and I expected to receive about 20 percent less than her since I took early retirement at age 62. I was shocked when I was told at the Social Security office that I would receive about 44 percent less. In dollars, that meant about $350 a month less instead of about $150 less which I had expected to receive.

Later, after about six months of inquiring at the Social Security office I discovered that the additional $200 difference was the "Notch".

When this legislation was passed in 1977, it was the best kept secret since the "D-Day" invasion of Normandy in World War II. I really believe that our legislators, at that time, thought that it would remain a secret.

This 1977 legislation not only discriminates against those born between 1917-1928 but even creates reductions for each year between 1917-1921, with those born in 1920 losing the most which can amount to over $200 monthly.

When Social Security increases are given, everyone gets the same percentage increase. When the COLA's are frozen, everyone is affected equally. If a downward adjustment is necessary in the future, everyone should receive the same percentage decrease.

I wonder how our Senators and Congressmen would react if they were told that because of the budget deficit, all those legislators born after 1916 would have to accept a $20,000 annual cut.

Well, Social Security has tremendous reserves in the billions with trillions foreseen in the near future. These reserves were partly created by the reduction given the Notch babies.

The tragedy of the Notch injustice is the fact that millions of Notch babies are veterans of World War II, who put their lives on the line for their country. They deserve better treatment.

Finally, there are several bills in the House to partially correct this gross injustice. The money is there in the Social Security surplus and would only cost 10 percent of this surplus over the next ten years. Let's stop all this rhetoric that has been going on for the past five years and bring it to a vote.

NOTCH EXAMPLES

Sidney Ulan and his Sister, Gertrude Warwick of Pennsylvania
Members of the National Committee to Preserve Social Security and Medicare

I. Sidney Ulan, born in 1920, is a Notch Baby. His sister, Gertrude Warwick, is not notched. Gertrude was born in 1915, two years prior to the Notch Years.

	Birthdate
Sidney	December 10, 1920
Gertrude	May 19, 1915

II. Following World War II, Sidney returned from the European theatre as a decorated combat pilot. Together with his sister, Gertrude, he took over the reins of the family business. For the next three and-half decades they shared the work and split profits and losses equally.

Sidney's and Gertrude's Social Security records confirm that they have paid almost identical amounts into the Social Security system:

	Total Taxed Wages (1951 to 1981)
Sidney	$183,556.50
Gertrude	$185,531.41
Sidney's Wage Difference	-$1,974.91
Percent Difference	-1.1%

III. When Sidney and Gertrude decided to liquidate their business in 1981, Gertrude had already reached age 65 and Sidney was ready to take early retirement at age 62. So Sidney figured that his Social Security check would be about 20 percent less than Gertrude's check since he was taking a reduction for early retirement at age 62.

But instead of a 20% reduction, Sidney was shocked to discover he would get only about one-half of what Gertrude was receiving! And in 1988, Sidney still received a monthly check of about $462 which is 43.9 percent less ($362 less) than Gertrude's $824 monthly check.

Although Sidney's benefits were reduced by 20 percent because of his early retirement, the Notch actually caused a bigger reduction. Even if Sidney had retired at age 65, his monthly benefit check would still be 29.1% less ($247) than Gertrude's check!

	1988 Full Monthly Age 65 Benefit Rate	1988 Early Retirement Age 62 Benefit Rate
Sidney	$600.00	$480.00
Gertrude	$847.00	$677.00
Sidney's Notch Loss	-$247.00	-$197.00
Percent Loss	-29.1%	-29.1%

IV. This month, Sidney will receive about $197 less than Gertrude would have received if they had both retired at age 62. And, over the sixty-four months since Sidney first claimed benefits, the Notch has already cost him over $12,000.

STATEMENT OF FRED A. HARDIN, PRESIDENT, UNITED TRANSPORTATION UNION, FOR THE HEARING OF THE SOCIAL SECURITY SUBCOMMITTEE, HOUSE WAYS AND MEANS COMMITTEE, ON THE SOCIAL SECURITY NOTCH ISSUE

My name is Fred A. Hardin. As president of the United Transportation Union, one of the largest unions of railroad workers, I wish to thank the Chairman and members of the Social Security Subcommittee for the opportunity to present my comments on the "notch issue."

I will not go into the technicalities of the so-called "notch issue", how and why it developed, and the dilemma it presents to those searching for a solution. That has been done by the many experts who have already testified.

My main reason for presenting my comments is to make the committee fully aware that any notch legislation would have a direct impact on the railroad retirement system. The notch issue is a matter of direct concern to active and retired rail workers and their families.

As you know, a major portion of each annuity paid under the Railroad Retirement Act, the tier 1 portion, is computed under social security benefit formulas, including the transition formula and the new formula provided by the 1977 Social Security Act amendments. It was the application of these formulas which gave rise to the notch issue.

Because of the use of the Social Security Act benefit formulas to compute tier 1 railroad retirement benefits, the notch has passed through to many individuals who receive railroad retirement benefits. Thus, the same notch problems and issues that exist with respect to the social security program are also applicable to railroad retirement.

Many rail retirees are hurt and indignant that, for reasons that are difficult or impossible to understand and accept, they are getting less in benefits than individuals with similar work histories who retired earlier. I greatly sympathize with the plight of these individuals.

At the same time, rail retirees are also aware that any legislation enacted to fix the notch problem will result in added costs to the railroad retirement system. This is true because while the major portion of the tier 1 benefit structure is financed through a financial relationship with the social security system, a substantial part of tier 1 costs is paid directly from the Railroad Retirement Account.

Any cost added to railroad retirement at this time is a matter of concern. To finance benefits under current levels, the Railroad Retirement Board's actuary, in his last report to Congress, called for substantial employment tax increases. As a result, this committee added several provisions to its portion of the recently enacted budget reconciliation act.

First, the committee moved to raise the tier 2 tax paid by employees from 4.25% to 4.90% of taxable tier 2 payroll, and raise the tier 2 tax paid by employers from 14.75% to 16.10% of taxable tier 2 payroll. This was a smaller increase than the Board's actuary requested.

Second, the committee established a Commission on Railroad Retirement Reform. The purpose of the commission is to study, and make recommendations with respect to, the railroad retirement system's short-term and long-term financial condition. The report of the commission is due on or before October 1, 1989.

Because railroad retirement taxes are already so high, the job of the Commission on Railroad Retirement Reform will not be easy. Any cost above what is anticipated under current law would exacerbate the problems the commission will be addressing.

In seeking a solution to the financing problems of the railroad retirement system, the commission will be looking at various alternatives. One of the alternatives is frightening to railroad workers and retirees.

In submitting his fiscal year 1989 budget to Congress, the President again recommended privatizing the railroad retirement system. A privatized railroad retirement system would not be insured under the provisions of the Employees' Retirement Income Security Act ("ERISA"). If income under such an uninsured private system is not sufficient to pay benefits in full, and rail labor and management cannot find a way to increase revenue, the President's plan contemplates that current benefits simply would be reduced.

As can be seen, any added cost for railroad retirement at this time, whether as part of a notch problem solution or otherwise, could make railroad retirement financing solutions more difficult to achieve, and none of the solutions are pleasant.

Balancing the equities involved in the notch issue and finding a solution to that problem will not be easy. I complement the committee for addressing this difficult issue by calling for these hearings. Because any notch issue legislation would affect current and retired railroad workers, we will be carefully watching legislative developments in this area. On behalf of retired and active rail workers, I request that we be given opportunity to review and comment on any developing legislation.

Finally, I will add one further comment. Everyone agrees that it would be grossly unfair and completely unacceptable, as part of any notch problem solution, to reduce benefits already being paid to individuals. Therefore, I find it sadly ironic that the Congress allowed the recent reduction in vested dual benefits currently being paid to 275,000 rail retirees. I realize that the dual benefit reduction is not a matter within the jurisdiction of this committee; however, I consider it appropriate to mention the matter here because this hearing is about benefit equities.

I thank the committee for receiving this statement on behalf of railroad retirees and railroad workers.

STATEMENT OF THE HONORABLE GUS YATRON (D.-PA.)

Gus Yatron

Mr. Chairman and distinguished members of the Subcommittee on Social Security, I want to thank you and commend you for holding the long-awaited hearing on the General Accounting Office report recently issued on the social security notch problem. As a cosponsor of H.R. 1917, I am greatly heartened by this development and appreciate the Committee's willingness to further review this matter and address the issue of inequity unintentionally caused when Congress changed the social security benefit formula in 1977.

The notch inequity arose as the result of an effort to correct an error in the 1972 Social Security Act Amendments which, without correction, threatened the very existence of the social security system. To save the system from bankruptcy, a new computation formula for benefits was put into effect impacting upon all people born after 1916, not just those within the "notch years." This action however, brought about a great disparity in the amount of benefits many senior citizens received, particularly for those within the transition years of 1917-1921. Although proposals have been offered to "fix" this problem, we have yet to arrive at a satisfactory resolve. It is up to us in Congress to correct the injustice and ensure it remains one of our top priorities until we have achieved that end.

The legislation which has been introduced in the 100th Congress, H.R. 1917, would help to restore greater fairness and I am encouraged that over 150 Members have cosponsored this measure. I am sure many of my colleagues have heard, as I have, from a great number of their constituents affected by the notch, to such a degree that their voices cannot be ignored. Their concerns are certainly warranted and I am hopeful that we can, in the near future, restore greater equity to the social security system. The hearing on April 14th is truly a positive and welcome step forward, allowing greater light to be shed on the matter. I again applaud the Members of the Subcommittee for their efforts and I hope that progress in this area will continue unabated so that these citizens who have been wrongfully shortchanged may at long last receive their justly earned benefits.

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